

Analysis

Item 13: Oregon Health Authority

Behavioral Health Programs

Analyst: Tom MacDonald

Request: Appropriate \$28,220,961 General Fund and increase the Federal Funds expenditure limitation by \$63,249,975 to support budget challenges and savings opportunities for behavioral health programs in the Oregon Health Authority.

Analysis: The Oregon Health Authority (OHA) requests an increase of \$28.2 million General Fund and \$63.3 million in Federal Funds expenditure limitation to address five distinct issues related to the agency's Medicaid and non-Medicaid behavioral health programs. The General Fund request is net of \$51.6 million in costs and \$23.4 million in savings. Nearly all of the identified General Fund costs are related to repaying federal Medicaid match that was incorrectly billed for behavioral health services provided over a six-year period.

The agency's request, which does not include adjustments to positions or FTE, is summarized as follows:

Behavioral Health Program Requests <i>\$\$ in millions</i>	General Fund	Federal Funds	Total
1. Repay federal Medicaid match (one-time cost)	\$50.0	\$0.0	\$50.0
2. COMPASS behavioral health IT project	\$1.6	\$7.6	\$9.2
3. Mental health residential rate standardization	(\$11.9)	\$46.3	\$34.4
4. Behavioral health provider rate savings (one-time)	(\$0.5)	(\$1.6)	(\$2.1)
5. Mental Health Block Grant savings (one-time)	(\$11.0)	\$11.0	\$0.0
Total	\$28.2	\$63.3	\$91.5

Repay Federal Medicaid Match

Based on a review of payments to substance use disorder (SUD) treatment facilities for services provided from July 2013 through June 2019, OHA requests a one-time General Fund increase of \$50 million to repay the federal government for incorrectly claimed federal Medicaid match. The \$50 million represents the net of two forms of incorrectly matched payments made during this six-year period: 1) costs totaling \$61 million for payments that claimed federal match for expenses ineligible for Medicaid reimbursement; and 2) savings of \$11 million for payments that were eligible for federal Medicaid match but paid entirely with General Fund.

Since the payments made to providers during this period were calculated at the correct rates but with the incorrect mix of federal and state funds, OHA is responsible for repaying the federal government for the overclaimed match and has no grounds to recoup payments from the facilities. The root cause of the incorrectly claimed match deals with the relevant SUD treatment facilities being designated as Institutions for Mental Diseases (IMD), which are adult mental health and SUD treatment facilities with more than 16 beds. Based on long-standing federal law, IMDs are precluded

from receiving federal Medicaid reimbursement for most patient expenses. The incorrectly matched payments resulted from an unreliable process used to report and reconcile patient admissions to/from IMDs with corresponding payments. This issue had been identified once before in 2015, but the agency's corrective action plan was not sufficiently implemented at the time, resulting in continued payments with incorrect match.

To fix the current underlying payment errors, OHA developed and automated a new IMD claims query in the state's Medicaid claims system to routinely report all claims paid for IMD services and identify errors in Medicaid reimbursement. OHA also enhanced its monitoring processes to further mitigate potential payment errors. OHA has tested these corrective actions and informed the Legislative Fiscal Office and Chief Financial Office that the revised processes successfully demonstrate that payments for IMD services now include the correct federal match.

The agency began reprocessing the incorrect IMD claims in October 2019 with the correct mix of federal and state funds; given the volume of claims, this work is expected to continue through the spring of 2020. OHA's request indicates that since the \$50 million General Fund does not cover any payment errors made in the early months of 2019-21, the agency will prioritize its existing budgetary resources to repay any incorrectly claimed federal match during this period, which is not expected to be significant. Additionally, given the six years of overclaiming federal match for IMD services, the agency's existing base budget presumably has a structural imbalance that relies on more federal funding for IMD services than is authorized under federal law. The agency has requested approval of a federal waiver to receive Medicaid match for future SUD IMD expenditures. If approved, the waiver could help rectify this structural imbalance, although any savings are still far from guaranteed.

COMPASS Behavioral Health IT Project

OHA requests an additional \$1.6 million General Fund, which would match an estimated \$7.6 million in federal Medicaid funds, to advance the agency's on-going behavioral health IT system replacement project, known as COMPASS (Community Outcome Management and Performance Accountability Support System). The project is working to replace several antiquated, siloed behavioral health data systems with modularized applications that provide multi-functional data reporting capabilities to support work being done by the agency, behavioral health providers, and community partners.

The replacement of the current outdated systems intends to fundamentally improve various behavioral health programmatic and financial functions the agency is currently unable to fully achieve, such as: adequately measuring and tracking behavioral health outcomes; increasing the ability to tie reporting responsibilities to payments; and satisfying reporting requirements for federal grants. A specific example of a key project objective is to transform the way in which community mental health programs are able to report their caseload data to OHA and, in turn, strengthen the ability to validate that the agency's behavioral health budget is appropriately distributed to the right places for the right services. The project has made progress over the past year in terms of assigning a project manager, business analyst, and other project staff, developing project and steering committee charters, documenting business and reporting processes, and conducting a cost analysis. The project has completed the Stage Gate 1 initial phase of the state oversight process for IT projects and is working toward endorsement of the State Gate 2 planning phase.

At the high-end, OHA has indicated estimated costs over the life of the project could surpass \$20 million. The agency is trying to minimize the impact on state resources by working with the federal government to receive a 90% federal Medicaid match for key project components. The \$1.6 million

General Fund and related \$7.6 million federal match is requested to support project activities through the remainder of 2019-21, including final project planning activities, hiring vendors, and the beginning stages of system build. The request is in addition to \$1.5 million General Fund and two positions (1.76 FTE) included in the agency's 2019-21 legislatively adopted budget to support the initial stage of the project. The agency has also leveraged \$1.4 million General Fund from other areas of its behavioral health budget primarily from in-kind resources (e.g., assigning existing staff to the project).

Mental Health Residential Rate Standardization Savings

OHA has identified \$11.9 million in General Fund savings achieved through a multi-year process to develop standardized rates for both Medicaid and non-Medicaid mental health residential services. OHA initiated this process at the direction of the Legislature in 2017 in light of significant historical rate variances across providers and services. The underlying reasons for the prior rate discrepancies included: lower rates for providers with long-standing contracts compared to providers with newer contracts; lack of connection between rate levels and patient acuity; and differences between Medicaid and non-Medicaid rate structures.

The revised rates, which impact over 120 mental health residential service providers, are based on actuarially sound principles and reflect client acuity, as well as demographic and geographic variation to account for wage, housing, and transportation variances. The General Fund savings are made possible by leveraging additional federal dollars for Medicaid-reimbursable services that were not captured under the old rate structure. This shift to a rate structure largely based on Medicaid results in a corresponding shift of \$43.8 million General Fund from the existing non-Medicaid behavioral health budget to the Medicaid budget. OHA also estimates an additional \$46.3 million in federal Medicaid funds will be available for services in 2019-21, which drives the \$11.9 million in General Fund savings and results in many providers receiving higher reimbursement rates than before.

The new rate structure has been approved by the federal Centers for Medicare and Medicaid Services and became effective July 1, 2019. OHA provided multiple updates on this issue to the Legislature during the 2017-19 biennium and worked with mental health residential treatment providers and community mental health programs over the course of the rate development process.

Behavioral Health Provider Rate Savings

OHA's 2019-21 legislatively adopted budget includes a new investment of \$13 million General Fund and \$36.3 million Federal Funds to increase substance use disorder (SUD) and mental health non-residential fee-for-service provider rates for Medicaid and non-Medicaid services. At the time the investment was made, the goal was for all rate increases to retroactively take effect July 1, 2019, if possible.

OHA completed the work to increase the fee-for-service rates for all of the intended services in the fall of 2019, including gaining federal approval for the Medicaid rate increases. For the rate increases impacting non-Medicaid services, which are supported by \$9.35 million of the \$13 million General Fund investment, the agency was able to retroactively implement the rate increases as of July 1, 2019. However, federal rules limit how far back states can retroactively implement Medicaid rate adjustments. In this case, the Medicaid fee-for-service rate increases became effective October 1, 2019, which results in one-time savings of \$0.5 million corresponding to the first three months of the biennium in which the Medicaid rate increases are not in effect.

Mental Health Block Grant Savings

OHA proposes using a one-time unbudgeted balance of federal Mental Health Block Grant revenue to offset \$11 million General Fund as a one-time savings measure. The available revenue is driven by unallocated 2017-19 grant dollars that will carry forward to 2019-21. Additional review of this item is recommended to better understand the nature of the one-time revenue and ability to leverage the federal dollars as savings.

Legislative Fiscal Office Recommendation: The Legislative Fiscal Office (LFO) recommends that the Joint Interim Committee on Ways and Means recommend including a decrease of \$12,351,281 in General Fund and an increase of \$44,647,101 in the Federal Funds expenditure limitation for the Oregon Health Authority be included in a budget reconciliation bill during the 2020 legislative session to recognize savings and additional federal revenue from standardizing mental health residential rates and one-time savings related to the timing of behavioral health provider rate increases. LFO further recommends that the Committee defer action on the remaining adjustments in this request to the 2020 legislative session, with the understanding that LFO will develop additional recommendations for consideration during the session.

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Oregon Health Authority Heath

Request: Appropriate \$28,220,961 General Fund and increase Federal Funds expenditure limitation by \$63,249,975 to address budget challenges related to behavioral health services funded by the Oregon Health Authority.

Recommendation: Consider the request during the 2020 Legislative Session.

Discussion: The Oregon Health Authority (OHA) is requesting \$28,220,961 General Fund and \$63,249,975 Federal Funds expenditure limitation to address a number of behavioral health budget challenges.

A significant portion of this request includes \$50.0 million General Fund related to the Institution for Mental Disease (IMD) exclusion. This exclusion prohibits Medicaid from reimbursing for services that clients receive at Institutions for Mental Disease, which includes the Oregon State Hospital. The Department has not tracked when Medicaid members moved into or out of an IMD and thus, what services should have been covered with General Fund rather than matched by Medicaid funds. OHA reviewed claims from Fiscal Years 2013 through 2019 and is requesting \$50.0 million to repay the federal government for the net Medicaid overpayments. OHA will cover the cost of the reimbursement attributable to claims from 2019-21 within its existing budget authority. The Department has started processing repayments and expects to make the final repayments by June 2020.

This is the second time the Department has faced this issue. In 2015, the Department made a system adjustment to correct the federal payments that were inappropriately applied, but the plan to monitor this exclusion on an ongoing basis was not fully implemented. To address this issue going forward, the Department has submitted a plan amendment to be able to receive Medicaid match payments on pregnancy and postpartum services for individuals at IMDs (approved in October 2019) and submitted a waiver to allow for Medicaid reimbursement for substance use services received by IMD patients. The Department has also instituted internal reviews to ensure this issue does not grow to require a repayment of this size in the future.

The Department is also requesting \$1.6 million General Fund and \$7.6 million Federal Funds expenditure limitation to continue planning, go through procurements, and potentially begin work on a number of behavioral health information systems, including a replacement for the COMPASS system, a Longitudinal Assessment Portal (LEAP), and a Master Client Index. Briefly, the COMPASS system is a client data system for behavioral health clients, the LEAP system will allow for mental health assessments to be stored and accessed electronically, and the Master Client Index will ensure mental health client information can be accurately linked across the different information systems now in place. The Department is currently in negotiations with the federal government to receive a 90 percent match rate for the LEAP and Master Client Index projects. The 2019 Legislature provided \$1.5 million General Fund and created two positions (1.76 FTE) for the COMPASS replacement project planning. While this work is still in its initial stages, the Department is requesting the additional funds because they believe they will be ready to start executing on this work before the end of the biennium. The COMPASS project has completed Stage Gate 1 of the state IT oversight process.

Partially offsetting these requests, OHA reports savings of \$11.9 million General Fund from the process of standardizing mental health rates for residential services. These changes were directed by the 2017 Legislature and are proposed in collaboration with mental health providers. The new rates are set based on client acuity, level of service, demographics, region, and variations in the state's minimum wage. By using a standardized rate, OHA will begin to receive Medicaid matching funds for these services. The new rates were fully implemented July 1, 2019 and the Department estimates this will generate \$46.3 Federal Funds, increasing the total amount adult mental health residential treatment providers will receive during the biennium, by approximately \$30 million total funds.

The Department projects that it will realize \$0.5 million General Fund savings due to a 3-month delay in increasing substance abuse disorder provider rates to line up the rate increases with Medicaid rate increases in October. Finally, the Department is proposing savings of \$11.0 million General Fund by using excess federal Mental Health Block Grant funds to offset mental health contract expenses.

The Department estimates a rollup cost of \$11.5 million General Fund for these actions in the 2021-23 biennium in order to continue current services after accounting for one-time funding and one-time savings.



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December 9, 2019

The Honorable Senator Betsy Johnson, Co-Chair
The Honorable Senator Elizabeth Steiner Hayward, Co-Chair
The Honorable Representative Dan Rayfield, Co-Chair
Interim Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request

The Oregon Health Authority (OHA) requests \$28,220,961 General Fund and \$63,249,975 Federal Funds limitation increase for Health Systems Division behavioral health budget challenges.

Agency Action

Recent efforts by OHA to improve business rigor throughout the agency have uncovered areas where changes in business processes, information systems, and reimbursement methodologies are needed to effectively manage behavioral health programs. The agency has also identified additional revenues and savings in behavioral health program budgets during the closeout of the 2017-19 biennium.

General Fund Challenges

Institution for Mental Diseases (IMD) Correction (\$50.0 million) – OHA determined it was not promptly identifying when Medicaid members moved into or out of an IMD. This meant that when members moved into an IMD, OHA over claimed federal match, since Federal Funds cannot be used for any Medicaid expenditures while a member is receiving treatment from an IMD. It also meant that, when members moved out of an IMD, OHA under claimed federal match due to the delay in resuming claiming federal match.

To correct funding for claims from July 2013 through June 2019, OHA will need \$50.0 million in state funding to pay back the Centers for Medicare & Medicaid Services (CMS). OHA will process corrections of these claims through Spring of 2020. For corrections in the 2019-21 biennium, OHA will cover some of the state

fund need with funding in its base budget. OHA anticipates the remaining state fund need will be addressed through CMS approval of a request seeking federal match for ongoing IMD expenditures. Once corrections are complete, to prevent this issue from reoccurring, OHA will review transactions on a monthly basis for funding errors.

COMPASS System Funding (\$1.6 million) – The 2019-21 Legislatively Adopted Budget included \$1.5 million General Fund to start the planning phase of the COMPASS system project. The Health Systems Division is requesting \$1.6 million General Fund to continue work on this project through the 2019-21 biennium. The additional funds would support ongoing planning and allow vendors to begin building three interconnected systems: the COMPASS system (\$0.8 million), a Longitudinal Enterprise Assessment Portal (\$0.1 million), and a Master Client Index (\$0.7 million). The LEAP system will support decision-making, quality improvement, and monitoring outcomes for programs across OHA. The Master Client Index will ensure OHA can track all the services each client receives, even if those services were provided by different providers or through different programs. The LEAP and Master Client Index are expected to receive a federal match rate of 90 percent.

General Fund Savings

Mental Health Residential Rates Standardization (\$11.9 million) – At the direction of the 2017 Legislature and in collaboration with providers, the Health Systems Division developed a standardized rate-setting methodology for mental health residential services. The new methodology sets daily rates for services based on actuarially sound principles and includes tiers based on client acuity, level of services, demographics, region, and minimum wage variation across the state. By using a standardized daily rate, OHA was able to obtain CMS approval for Medicaid federal matching funds. Preliminary estimates indicate this will result in a General Fund savings of \$11.9 million. Due to the early stage of implementation, budget estimates may change over time as more information becomes available.

Behavioral Health Provider Rate Increases (\$0.5 million) – The 2019-21 Legislatively Adopted Budget includes funding to increase provider rates for substance use disorder (SUD) treatment. The budget assumes all rate increases are effective July 1, 2019; however, Medicaid rate increases became effective October 1, 2019, based on CMS approval. Since Medicaid rate increases will be effective for

21 months, instead of 24 months, the Health Systems Division's General Fund need for SUD provider rate increases is reduced by \$0.5 million.

Management Actions

Mental Health Block Grant Savings (\$11.0 million) – The 2019-21 Legislatively Adopted Budget for Non-Medicaid includes \$31.4 million Federal Funds from the Mental Health Block Grant (MHBG), including carryover funding from 2017-19 and awards for the current biennium. The current projection for MHBG expenditures is \$20.4 million, which leaves \$11.0 million Federal Funds. OHA plans to use these unbudgeted Federal Funds for mental health contract expenses in lieu of General Fund.

Action Requested

Acknowledge receipt of the report.

Legislation Affected

Oregon Laws 2019, Chapter 695, Section 1, Subsection (1).
Oregon Laws 2019, Chapter 695, Section 4, Subsection (1).

Sincerely,



Patrick M. Allen
Director

EC: Tom McDonald, Legislative Fiscal Office
Ken Rocco, Legislative Fiscal Office
Kate Nass, Department of Administrative Services
George Naughton, Department of Administrative Services