

Analysis  
**Item 3: Oregon Health Authority**  
 Rebalance Report

**Analyst:** Tom MacDonald

**Request:** Acknowledge receipt of the report on the Oregon Health Authority’s 2019-21 financial status.

**Analysis:** The Oregon Health Authority (OHA) has submitted its second budget rebalance plan for the 2019-21 biennium. OHA’s plan identifies net General Fund savings of \$50.7 million, a total funds increase of \$394.9 million, and an increase of three positions (0.83 FTE). The General Fund savings is driven by insurer assessment revenue available to support Oregon Health Plan (OHP) expenses and forecasted changes in OHP caseloads. The caseload continues to grow but at levels that cost less than the budget increase approved during the August 2020 special session.

OHA’s rebalance calculations, however, pre-date the most recent extension of the federal public health emergency, which results in increased caseload costs projected to offset the caseload savings identified in the rebalance, and also results in additional savings from the enhanced Medicaid match rate. There are also other non-rebalance costs and savings, most of which require more analysis and should be considered preliminary, that need to be taken into consideration when evaluating OHA’s rebalance. These issues are summarized in the table and narrative below.

<b>2019-21 - OHA Rebalance and Other Potential Issues</b>				
<i>\$\$ in millions; prior to LFO recommendations</i>				
	<b>General Fund</b>	<b>Other Funds</b>	<b>Federal Funds</b>	<b>Total</b>
<b>A. OHA Dec. 2020 Rebalance Letter</b>	<b>(\$50.7)</b>	<b>\$517.3</b>	<b>(\$71.7)</b>	<b>\$394.9</b>
<b>B. Potential Non-Rebalance Issues</b>				
COVID-19 response needs - TBD	TBD		TBD	TBD
Repay overdrawn federal Medicaid match	\$50.0			\$50.0
FMAP savings / add'l caseload costs (1/2021 - 3/2021) <sup>1</sup>	(\$41.5)		\$150.5	\$109.0
M108 - tobacco tax available for OHP / prevention <sup>2</sup>	(\$101.2)	\$111.0		\$9.8
M109 - psilocybin program implementation - TBD	TBD			TBD
M110 - addiction recovery implementation - TBD		TBD		TBD
<b>Subtotal - Non-Rebalance Issues</b>	<b>(\$92.7)</b>	<b>\$111.0</b>	<b>\$150.5</b>	<b>\$168.8</b>
<b>Total - 2019-21 Rebalance and Other Potential Issues</b>	<b>(\$143.4)</b>	<b>\$628.3</b>	<b>\$78.8</b>	<b>\$563.7</b>

1. Additional net FMAP savings will be available if the federal public health emergency is extended beyond March 2021.

2. Assumes status quo budget treatment of tobacco tax revenue dedicated to OHP; revenue not used in 2019-21 would be available in 2021-23.

- **Potential COVID-19 Response Needs** - The absence of a new federal coronavirus relief package could impact OHA’s ability to respond to the pandemic due to the expiration of Coronavirus Relief Funds (CRF) at the end of December 2020. The Emergency Board has authorized the expenditure

of nearly \$170 million CRF in OHA for COVID-19 testing, contact tracing, quarantine support, behavioral health services, and health equity investments. The Department of Administrative Services has also used CRF to offset eligible OHA staffing costs, including staff in the new Coronavirus Response and Recovery Unit (CRRU) jointly established by OHA and the Department of Human Services. OHA has highlighted all of these costs, as well as potential vaccine distribution costs, as point-in-time concerns if additional federal or state resources are not provided.

- Medicaid Match Repayment** - During the February 2020 legislative session, a \$50 million General Fund increase was approved through the Ways and Means process to repay federal Medicaid match that had been incorrectly claimed over a six-year period. Because the Legislature adjourned without passage of a budget bill, this obligation remains unsatisfied. The Centers for Medicare and Medicaid Services (CMS) has rejected requests by OHA to forgive or reduce the amount owed. A request for this funding was not advanced to the Emergency Board given the magnitude of the cost relative to the funding available in the Emergency Fund. Without federal relief, and to avoid the accumulation of interest and potential penalties, this payment needs to be made in 2019-21. The savings from other adjustments identified in this analysis would more than offset this cost.
- Federal Public Health Emergency Renewal** - Two sets of federal policies tied to the duration of the federal public health emergency declaration, which is approved for 90-day intervals, have both a savings and cost impact on state Medicaid spending. First, for each calendar year quarter in which the emergency declaration is in effect, states can receive a 6.2 percentage point increase in their federal Medicaid match rate, or Federal Medical Assistance Percentage (FMAP), which saves General Fund. Second, to be eligible for the enhanced FMAP, states must maintain Medicaid coverage for their caseloads through the end of the month in which the emergency declaration expires, except in limited circumstances. This increases costs because some members remain on the caseload longer than they normally would have.

The budget adjustments approved during the August 2020 special legislative session included estimated General Fund savings based on the effective dates of these policies in place at that time. The emergency declaration has since been extended for another 90-days (through January 20, 2021). This extension results in estimated net savings of \$41.5 million General Fund, which has not been captured in OHA’s budget yet. If the federal government extends the emergency for another 90 days after January 20, 2021, additional net General Fund savings of roughly the same amount is estimated for the last three months of 2019-21. The table below summarizes the key effective dates of the federal policies and estimated General Fund impact.

2019-21 Key Effective Dates	August 2020 Special Session	Current Effective Dates / Estimated GF Impact	TBD Pending Federal Renewal
90-day emergency effective dates	1/27/2020 - 10/22/2020	10/2/2020 - 1/20/2021	TBD if renewed 1/21/2021
Enhanced FMAP effective dates	1/1/2020 - 12/31/2020	1/1/2021 - 3/30/2021	TBD if 4/1/2021 - 6/30/2021
Net General Fund estimated impact	\$129.6 million savings	\$41.5 million savings	TBD

- Tobacco/Vaping Tax Revenue (Measure 108)** - According to the December 2020 state revenue forecast, a net increase of \$101.2 million in tobacco and vaping tax revenues are available to

support OHP in 2019-21 due to the passage of Measure 108.<sup>1</sup> This revenue could be used to offset OHP General Fund costs in 2019-21 if the status quo process for budgeting for tobacco tax revenues dedicated to medical assistance programs is followed. If any or all of this revenue is not used in 2019-21, it would be available to use in the 2021-23 budget. The December forecast also reflects a net increase of \$9.8 million in revenue dedicated to tobacco cessation and prevention programs, which also has not yet been recognized in OHA's 2019-21 budget.

- **Psilocybin Services (Measure 109)** - Measure 109 directs OHA to develop a program regulating the administration of psilocybin in supervised settings. The measure establishes a two-year program implementation timeline beginning January 2021. An analysis prepared by the Department of Administrative Services in the summer of 2020 estimated OHA's program implementation costs to be \$1.5 million General Fund for the last six months of 2019-21. Ultimately, the agency's costs should be fully supported by licensing fee revenue once the program is implemented. The Legislative Fiscal Office (LFO) has requested OHA to reassess its need for funding in 2019-21 for program implementation, which has not yet been completed.
- **Addiction Treatment and Recovery (Measure 110)** - Further analysis is required regarding the implementation and budget impact of Measure 110. In addition to decriminalizing certain drug possession offenses, the measure redistributes a significant portion of marijuana tax revenue dedicated to schools, the State Police, behavioral health programs, and cities and counties to operate new addiction recovery centers (ARCs). However, because forecasted marijuana tax revenue has substantially increased since the 2019-21 budget was adopted, sufficient revenue is expected to fulfill the amounts budgeted for the existing revenue distributions in 2019-21, although they will not receive as much as they could have without the measure.<sup>2</sup> The impact on the existing revenue distributions will be much more significant in 2021-23. Aside from changes in the revenue distributions, other questions remain about how the new program will be structured and the potential need for expenditure limitation to support implementation costs in 2019-21.

Although the Emergency Board could act on some of the adjustments included in OHA's rebalance, LFO recommends acknowledging receipt of the agency's report. After further review and refinement of the rebalance adjustments, as well as more thorough analysis of the non-rebalance issues discussed above, LFO will propose budgetary changes for inclusion in a budget reconciliation bill during the 2021 legislative session.

The remaining sections focus on the issues identified in OHA's rebalance report according to agency program.

#### Health Systems Division (HSD)

Most of the rebalance changes identified by OHA impact HSD and result in net General Fund savings of \$54 million, increased Other Funds expenditure limitation of \$528.2 million, decreased Federal Funds expenditure limitation of \$71.5 million, and an increase of one position (0.33 FTE).

*OHP Caseload:* Despite the pandemic's impact on the economy, the members remaining on the OHP caseload due to the temporary federal eligibility policies are having a greater impact on caseload growth versus the number of new people signing up for coverage. While not entirely known, some of

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<sup>1</sup> The \$101.2 million in potential General Fund savings in 2019-21 is net of \$2.7 million LFO assumes would be approved to backfill a forecasted decline in cigarette tax revenue dedicated to community mental health programs.

<sup>2</sup> The distributions to cities and counties are not subject to state budget expenditure limitations like the distributions to state programs.

the reasons for this dynamic could be that many of the newly unemployed were already on OHP or have simply not signed up if their unemployment is understood to be temporary. Also, individuals currently have fewer “institutional” routes for applying for coverage due to, for example, school closures and reductions in hospital and doctor office visits.

From March 2020 through November 2020, the caseload has grown by nearly 150,000 members. In terms of overall biennial numbers, the average 2019-21 OHP and other medical assistance caseloads are expected to total 1.14 million members according to the fall 2020 forecast. This represents an increase of 69,168 members compared to the spring 2020 (pre-pandemic) forecast. The Affordable Care Act caseload represents the overwhelming share of this growth.

<b>Caseload Forecast Changes: OHP and Other Medical Assistance</b>				
<b>Eligibility Category</b>	<b>19-21 Caseload Spring 2020</b>	<b>19-21 Caseload Fall 2020</b>	<b>Forecasted Change</b>	<b>% Change</b>
Affordable Care Act	367,369	412,711	45,342	12.3%
Parent, Caretaker Relative	86,433	89,610	3,177	3.7%
Pregnant Women	9,069	8,764	(305)	-3.4%
Children's Medicaid Program	292,997	310,609	17,612	6.0%
Children's Health Insurance Program	91,842	91,474	(368)	-0.4%
Aid to Blind and Disabled	84,620	84,700	80	0.1%
Old Age Assistance	48,246	48,762	516	1.1%
Foster, Substitute and Adoption Care	19,734	19,642	(92)	-0.5%
Cover All Kids	6,688	6,497	(191)	-2.9%
Other Medical Assistance Total	66,774	70,171	3,397	5.1%
<b>19-21 Total</b>	<b>1,073,772</b>	<b>1,142,940</b>	<b>69,168</b>	<b>6.4%</b>

Budgeting for OHP caseload changes has been challenging due to the continual 90-day extensions of the federal public health emergency. During the August 2020 special session, OHA’s budget was increased by \$175 million General Fund (\$1.1 billion total funds), to support estimated caseload growth. This budget increase was based on estimates prior to the completion of the fall caseload forecast. After the forecast was available, the estimated cost of supporting the OHP caseload through the remainder of 2019-21 was determined to be lower by \$32.9 million General Fund (\$128.9 million total funds). However, as mentioned earlier, the 90-day extension of the federal public health emergency results in more OHP members remaining on the caseload than assumed in the fall forecast, which is expected to cost \$35 million General Fund (\$109 million total funds).

*Community Mental Health Caseload:* OHA is not recommending budget adjustments for forecasted changes in community mental health (CMH) caseloads. Since the start of 2019-21, no such budget adjustments have been made pending the completion of a review of the CMH caseload forecast and budget processes and related recommendations from an OHA-led stakeholder workgroup. This work was required by a budget note due to concerns about the data available to inform the forecast and whether the long-standing way of budgeting for these caseloads properly incentivizes outcomes.

OHA submitted a status report of the workgroup’s progress in early 2020. At the time, the work was taking longer than expected and the target date for final recommendations was postponed until the end of 2020. The review process then stalled once the pandemic began. Outside the demands of the pandemic response, completing the review of the CMH caseload forecast and budget processes

needs to remain an OHA priority given the importance this work has on properly identifying community needs and funding legally compelled CMH services. At the time of this writing, OHA is developing a plan for restarting the process. LFO intends for OHA to provide an update on this work during the 2021 legislative session.

*Insurer Assessment:* Oregon's 2% assessment on health insurance premiums and managed care plans is one of the key non-General Fund resources dedicated to supporting the state-funded share of OHP expenses. The other major revenue sources are hospital assessments, tobacco taxes, Tobacco Master Settlement funds, and drug rebate revenue. The amount of General Fund needed to maintain support for the same level of OHP services generally has an inverse relationship to changes in these other state revenue sources.

Through the remainder of 2019-21, insurer assessment revenue is projected to total \$28.2 million more than the amount currently budgeted for OHP. Nearly all this amount is attributed to the assessment paid by coordinated care organizations due to the increasing OHP caseload. This increased revenue is available to offset (save) \$21.7 million General Fund, with the difference used to match federal Medicaid dollars to support the cost of the assessment.

*Treasury Loan:* During the last six months of each biennium, OHA typically borrows from the State Treasury to mitigate OHP cash imbalances that occur due to the timing of Other Funds revenue collections, such as hospital assessments. The amounts borrowed are then repaid once the Other Funds revenues are collected. The agreement with Treasury will confine the use of the amounts borrowed to legislatively approved expenses, which in this case reflects the costs of providing existing OHP benefits.

For 2019-21, OHA's rebalance recognizes a \$500 million Other Funds increase in HSD based on the anticipated loan amount and \$1.5 million General Fund in Central Services for interest costs. Subsequent to finalizing the rebalance report, OHA indicated the amount borrowed may ultimately be more than \$500 million. Any such adjustments will be determined ahead of anticipated 2019-21 budget adjustments during the 2021 legislative session.

*Medicaid Information Technology Projects:* The Medicaid Management Information System (MMIS) is the system Oregon uses for processing Medicaid claims and payments. OHA's rebalance includes a \$0.6 million General Fund increase and \$4.1 million in federal matching funds to support a backlog of system changes and projects mandated by CMS. The agency has identified 23 change requests and projects, which include changes to system coding and configuration, federal reporting, rate adjustments, records for individuals dually eligible for Medicare and Medicaid, and claims processing, among others.

Some of these required system updates have been known by OHA for several years but have been postponed due to OHA's prioritization of existing resources for other technology needs. If these projects are not completed or are delayed, the project backlog could increase and the agency would need to continue using manual process workarounds in certain cases. In an extreme scenario, CMS could threaten the availability of federal matching funds. Notwithstanding these risks, LFO believes the agency should complete these system change requests and projects within existing program resources and does not anticipate recommending additional funding for this purpose.

*Grant-Funded Position:* Federal Funds expenditure limitation of \$71,505 and one limited-duration position (0.33 FTE) are included for OHA's renewal of a non-competitive federal State Opioid

Response grant. OHA previously received approval to apply for this grant, which supports increased access to medication-assisted treatment for opioid use disorder.

### Oregon State Hospital (OSH)

The agency's report identifies a net \$1.7 million General Fund need in OSH based on several issues resulting in cost increases totaling \$16.8 million and savings totaling \$15.1 million.

The largest General Fund cost is \$12.9 million due to continued declines in patient insurance reimbursement. Although the hospital is mostly supported with General Fund, over \$38 million is supported with Other Funds revenue, most of which is from Medicare reimbursement. The patients who often have this coverage are those admitted through the civil commitment process. Because the hospital has had to increase bed space for "aid and assist" patients over the past few years relative to other admissions, the hospital's census demographics are changing such that fewer patients have Medicare. Compounding this issue is the fact that the hospital limited patient admissions for several weeks at the start of the pandemic, which further decreased reimbursements.

OHA is also identifying \$2.6 million in costs related to the admission of a severely ill patient from the Department of Corrections (DOC). The costs represent estimates for providing heightened safety measures to accommodate this patient while protecting other patients and staff. These measures include partially opening a unit at the Junction City campus for only this patient and assigning experienced staff - with position backfills satisfied through contractual staff or overtime - to care for the patient. The hospital's goal is to eventually integrate the patient into the overall patient population, but the timing for safely doing this remains unknown.

An increase of \$1 million General Fund is included to repay overclaimed federal Medicaid claims. This obligation represents the final repayment amount identified through an audit of OSH's payment system and billing processes by the OHA Office of Program Integrity. The Legislature approved an \$8.1 million General Fund increase during the August 2020 special session to address the audit findings known at that time. The last OSH cost increase is \$0.2 General Fund to replace the security system server at the Junction City campus. This need was prompted by the failure of the existing server and its replacement with a backup server; the security system vendor then notified the hospital that all security servers are at the end of their lifecycle and no longer supported. With only the backup server in use, there is no longer a safeguard if equipment fails.

Offsetting these costs is \$15.1 million in General Fund savings from two issues. First, \$14.2 million is from the combination of \$11.2 million from OSH's re-projection of operational costs through the remainder of the biennium and \$3 million in one-time federal Provider Relief Funds the hospital received to offset lost revenue and expenses related to COVID-19. The re-projection of operational costs is based on one year of actual expenditures and is driven mostly by lower-than-budgeted costs for psychiatry, nursing, and technician contractual services. OHA indicates these savings are one-time in nature. The remaining savings is \$0.9 million from the temporary 6.2 percentage increase in the FMAP, which OSH is able to claim based on its estimated share of federal disproportionate share hospital (DSH) payments. The \$0.9 million reflects three quarters of FMAP savings, but consistent with two additional 90-day extensions of the federal public health emergency, an additional \$0.6 million in savings is now expected to be available for OSH. OHA's budget was adjusted during the August 2020 special session to recognize four quarters of FMAP savings in OHP, but the estimate for OSH's FMAP savings was not available at the time.

Based on currently available information, LFO does not anticipate recommending adjustments to OSH's budget for the issues described above, with the expectation the hospital manage the overall reported net cost increase of \$1.7 million General Fund. Most of the reported costs and savings, particularly the change in Medicare reimbursements, costs for the patient transferred from DOC, and services and supplies savings, are based on estimates that could materially change before the end of the biennium. Also, the additional \$0.6 million in FMAP savings not included in OHA's rebalance could be used to support the cost of the security system server replacement and Medicaid match repayment, both of which are necessary expenses this biennium. Furthermore, the hospital has applied to receive additional federal Provider Relief Funds. If the hospital receives an award, the funding will help reduce costs elsewhere in the OSH budget.

#### Public Health Division

OHA requests \$86,603 General Fund to backfill the expiration of a federal grant the Public Health Division had used to process data for domestic well testing results. As part of real estate transactions involving properties with wells that provide groundwater for domestic purposes, state law (ORS 448.268) requires the sellers to have their wells tested for three types of contaminants and submit the results to OHA. The law does not authorize OHA to carry out responsibilities beyond the acceptance of the test results but allows the agency to establish rules requiring additional tests for other contaminants in specific areas of public health concern. This law has been in place since 1989, but OHA only first received federal funding in 2013. The federal funding is used to support portions of five different positions (ranging from 0.05 to 0.65 FTE) who enter the data into a database, conduct hazard assessments based on the data, develop public health messaging, and engage with partners and stakeholders in outreach and education activities.

LFO does not recommend approval of this General Fund increase in 2019-21 given the responsibility agencies have to mitigate expiring federal grants within existing resources, particularly for relatively low-cost issues like this one. Additionally, OHA is requesting funding that would support activities broader than the agency's statutory charge. Such requests are more appropriately evaluated as part of investment decisions during the biennial budget development process. The full biennial costs in 2021-23 for backfilling these federal dollars, as requested, is \$232,286 General Fund.

An increase of \$1 million in Federal Funds expenditure limitation and two positions (0.50 FTE) are included to support the awarding of the following three federal grants: Zero Suicide Initiative, Firearm Injury Surveillance, and Strengthening Environmental Health Program Capacity. The agency received legislative approval to apply for these grants at the September 25, 2020 meeting of the Emergency Board (Items 23, 26, and 27).

#### Fund Shifts / Technical Adjustments

In addition to the adjustments described above, OHA's rebalance plan includes fund shifts and transfers between agency programs to properly align the budget with planned expenditures. These adjustments net-to-zero at the agency level, have no net impact on General Fund, and do not change the administration or delivery of existing programs and services.

#### **LEGISLATIVE FISCAL OFFICE RECOMMENDATIONS**

The Legislative Fiscal Office recommends that the Emergency Board acknowledge receipt of the Oregon Health Authority's financial status report, with the understanding the Legislative Fiscal Office will develop recommendations for budgetary changes to be included in a budget reconciliation bill during the 2021 legislative session.

### 3 Oregon Health Authority Heath

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**Request:** Report savings of \$50,727,646 General Fund, increase Other Funds expenditure limitation by \$517,329,595, decrease Federal Funds expenditure limitation by \$71,706,627 and add 3 positions (0.83 FTE) to rebalance OHA's 2019-21 budget.

**Recommendation:** Acknowledge receipt of the report. Defer action on the request until the 2021 Legislative Session.

**Discussion:** Due to the size, complexity, and importance of the Oregon Health Authority's programs and funding, the Department engages in a budget rebalancing exercise three times a biennium. OHA is reporting a projected savings of \$50.7 million General Fund, a need for \$517.3 million Other Funds, and a Federal Funds decrease of \$71.7 million. The Department's report includes changes to the cost of its caseload, increases revenues forecasted to be available, identifies additional resources needed for the Oregon State Hospital, and discusses other budgetary needs the Department has identified.

#### Caseload and Federal Match Rate Changes

OHA is projecting a savings of \$32.9 million General Fund and \$96.0 million Federal Funds in the cost of its caseload. The savings arise because the August 2020 Special Session used a preliminary forecast for the Fall 2020 medical assistance caseload.

A key assumption to the forecast was that the federal public health emergency and the associated enhanced FMAP rate would end as planned during the 4<sup>th</sup> quarter of 2020. After the fall forecast came out the Secretary of the US Department of Health and Human Services extended the public health emergency associated with COVID-19 until January 21, 2021, meaning that the enhanced FMAP rate of 6.2 percent is in place for the first quarter of calendar year 2021. OHA estimates the revenue impact of this extension at \$80 million Federal Funds, of which \$76.5 million can be used to offset General Fund. These amounts are discussed in OHA's rebalance letter but are not included in the total savings of \$50.7 million General Fund.

The enhanced FMAP rate extension also will lead to additional caseload growth in both 2019-21 and 2021-23. OHP members who would otherwise be ineligible are allowed to remain on the caseload as a condition of Oregon accepting the enhanced FMAP rate. OHA estimates the cost of these additional OHP members at \$34.9 million General Fund in 2019-21 and \$50.9 million General Fund in 2021-23. The Governor's Budget assumes the public health emergency will be further extended through September 30, 2021. This extension will cost an additional \$116.9 million General Fund for a total cost of \$167.8 million in 2021-23, due to caseload increases above the amounts included in the official Fall 2020 caseload forecast. The Governor's Budget for OHA also includes \$83 million in enhanced FMAP revenues used to offset General Fund costs in 2021-23.

#### Revenue Updates

- **Insurance Tax** – OHA is projecting increased revenue from its 2.0 percent tax on Coordinate Care Organizations due to the net of its increased caseload and the reduction in CCO rates made during the August 2020 Special Session. OHA projects an additional



\$28.8 million in Other Funds revenue, of which \$21.7 million can be used to offset General Fund costs during the biennium after accounting for the mechanics of the provider tax.

- **Ballot Measure 108** – Due the timing of the November 2020 election, OHA’s rebalance letter does not contain the impacts of Measure 108’s passage on OHA’s cigarette and tobacco tax revenues. Measure 108 increased cigarette, tobacco product, and vaping tax revenues to OHA by \$116.4 million in 2019-21. This increase is offset by a \$5.6 million decline in the baseline forecast in the Office of Economic Analysis’ December 2020 Forecast. After accounting for the \$9.7 million in net additional revenue that goes to tobacco use cessation, the Governor’s Budget assumes the net additional \$101.1 million dedicated to medical assistance programs and mental health will be available in the 2021-23 biennium.
- **Ballot Measure 110** – Due to similar timing issues, OHA’s rebalance letter does not contain the impacts of Measure 110’s passage on OHA’s community mental health programs or on the new drug treatment programs established by the measure. The recently released forecast from OEA shows a decline in the amount available for mental health, alcoholism and drug services and alcohol and drug abuse prevention, intervention and treatment of \$4.1 million, as well as an increase of \$81.4 million for the new Drug Treatment and Recovery Services fund. Projections from the Department of Revenue show there are projected to be sufficient revenues to support existing OHA programs in 2019-21. OHA is currently working to identify its expenditure needs related to starting up the new services envisioned in the ballot measure.

#### State Hospital Finances

- **Other Funds / Federal Funds Revenues** – The Oregon State Hospital is projecting a \$12.9 million General Fund need due to a shortfall in Other Funds and Federal Funds revenues from insurance reimbursements and the impacts of COVID-19 on hospital operations, meaning that there are fewer patients. The shortfall comes on top of the \$38.6 million General Fund provided by the Legislature in the August 2020 Special Session, related to the revenue shortfall amount identified at that time. The 2021-23 Governor’s Budget does not include funding for the \$12.9 million revenue shortfall due to the need to establish a baseline of revenues under more typical operating conditions before making a budget adjustment in 2021-23.
- **Disproportionate Share Hospital Payments** – Oregon State Hospital receives supplemental payments from the federal government under the Disproportionate Share Hospital (DSH) program. Those payments are calculated by multiplying Oregon’s traditional FMAP rate times approximately \$5 million per quarter. Due to the public health emergency and its subsequent extensions, the state hospital is projecting an additional \$0.9 million in Federal Funds revenues from the DSH program. The extension of the public health emergency into the first quarter of 2021 means that there should be approximately \$0.6 million additional in total DSH revenues that can be used to offset General Fund costs in addition to the amounts identified in the rebalance letter. On the other hand, the State Hospital’s revenue projections used to support the \$12.9 million shortfall identified above appear to include the \$0.9 million in additional DSH revenues and so those amounts may be counted more than once.
- **Severely Ill Patient** – OHA is requesting \$2.6 million General Fund to care for a severely ill patient who transferred in from the Department of Corrections. Due to danger to himself and others, the patient has a team dedicated to treating him and is the only patient housed in a partially open unit in Junction City.

- **Medicaid Recoupment** - OHA is requesting \$1.0 million General Fund to repay the federal government for improperly claimed Medicaid reimbursements at the State Hospital. This is in addition to the \$8.1 million General Fund provided by the Legislature in the August 2020 Special Session to address this issue. OHA believes this is the final amount required to fully repay the amounts identified as improperly claimed.
- **Security System for Junction City Campus** – OHA is requesting \$0.2 million General Fund to replace the security system on the Junction City campus of the State Hospital due to a loss of vendor support for the existing system.
- **Projected Expenditure Savings** – OHA is seeking to recognize projected expenditure savings of \$14.2 million General Fund to offset costs identified in the rebalance letter related to the Oregon State Hospital. The State Hospital was projecting in the Fall 2019 rebalance letter to overspend its budget by \$23.6 million related to mandatory overtime and temporary staffing. The Legislature funded the requested amount in the August 2020 Special Session. Management actions have reduced the amount of overtime and contracted staffing needed. OHA projects that if the salary pot for 2019-21 is distributed in the amount contemplated during the February 2020 Session, it will be able to generate this level of savings.

#### Budget Authority Increases

- **MMIS Projects** – OHA is requesting \$0.6 million General Fund and \$4.1 million Federal Funds to complete a series of system change requests the Centers for Medicaid and Medicare Services (CMS) has required OHA to implement. The oldest project request dates back to 2011 and half of the change requests are over two years old. Resources are assigned to projects based on internal governance decisions taking into account the urgency of the requests, how the project originated, and whether there is a manual workaround in place. Recently, changes made to accommodate the Integrated Eligibility system, CCO 2.0, and COVID-19 have taken priority over the projects identified in the rebalance letter. OHA will undertake the work on these projects using its MMIS contractor.
- **Domestic Wells** – OHA’s Public Health Division is requesting \$86,603 General Fund to backfill a federal grant that expired in September 2020. The federal grant supported the Domestic Well Safety Program, which collects and analyzes domestic well data, conducts hazard assessments, and develops public health messaging and outreach for the approximately 23 percent of Oregonians who rely on domestic wells for their water.
- **Treasury Loan** – OHA requested \$1.5 million General Fund and \$500 million Other Funds expenditure limitation to account for borrowing needed to address a timing lag in the receipt of Other Funds revenues budgeted in OHA. After completing the rebalance letter, OHA provided modelling showing they expect to need up to \$1.05 billion in Other Funds expenditure limitation and to pay \$1.1 million in debt service to address this cash flow issue. OHA’s Other Funds revenues are budgeted on an accrual basis, meaning they are budgeted for the period they are earned, not in the period in which they are received, creating a cash flow gap as OHA reaches the end of the biennium. Starting in February 2021, OHA will borrow from a line of credit at the Oregon State Treasury to address this lag. Borrowing on the line of credit is expected to peak in June of 2021 at \$591 million. The line of credit is expected to be fully paid off by September of 2021.
- **Grants** – OHA is requesting a total of \$1.0 million in Federal Funds expenditure limitation, three positions (0.83 FTE) to implement the following grants: \$0.5 million and one position (0.25 FTE) for a Substance Abuse and Mental Health Services

Administration (SAMHSA) grant to implement suicide prevention programs, \$0.4 million and one position (0.25 FTE) for a grant to strengthen environmental health capacity, \$0.1 million and one position (0.33) for an opioid grant, and \$0.1 million for a Firearm Surveillance Through Emergency Rooms (FASTER) grant to provide better data on firearm injuries in Oregon.

### Technical Adjustments

The rebalance letter also requests technical changes that net zero and moves funding between divisions (or within divisions) or are net zero changes between Other Funds and Federal Funds. These changes include moving part of the funding for House Bill 3391 (2017), reproductive health work from Public Health to the Health Services Division to reflect where the work is taking place, moving funding within the Health Services Division for the Certified Community Behavioral Health Centers (CCBHCs) from the Non-Medicaid program to the Medicaid budget to reflect the decision of individual counties to use their community mental health funding to support the CCBHCs in their communities, and the shift from Federal Funds to Other Funds of a position in Public Health to better align program funding.

While many of the items discussed in this report are time-sensitive, action on the OHA's rebalance request is recommended to be deferred to the 2021 Legislative Session.



OFFICE OF THE DIRECTOR

Kate Brown, Governor

Oregon  
**Health**  
Authority

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November 4, 2020

The Honorable Senator Peter Courtney, Co-Chair  
The Honorable Representative Tina Kotek, Co-Chair  
State Emergency Board  
900 Court Street NE  
H-178 State Capitol  
Salem, OR 97301-4048

Dear Co-Chairpersons:

### **NATURE OF REQUEST**

The Oregon Health Authority (OHA) requests receipt of this letter as its Fall 2020 Rebalance Report for the 2019-21 biennium.

### **AGENCY ACTION**

Based on actual expenditures through September 2020 and updated projections through the end of the biennium, OHA is projecting a \$50,727,646 General Fund net savings for the rebalance issues. OHA will also submit a separate letter requesting \$50 million general funds to correct a federal match overclaim. OHA is identifying \$19,013,604 in General Fund budget challenges in the Oregon State Hospital, Public Health Division and OHA Central Services. General Fund savings of \$69,741,250 offset those challenges. Additionally, the agency is projecting a need to increase Other Funds limitation by \$517,329,595 and a decrease in Federal Funds limitation by \$71,706,627.

### **Oregon State Hospital**

The Oregon State Hospital projects \$16,828,407 in General Fund challenges and \$15,172,834 in General Fund saving for a net of \$1,655,573 in General Fund need.

*Revenue Shortfall* – Revenue collection goals established in the Oregon State Hospital budget continue to be a challenge. Medicare Part A, which is limited by the number of billable lifetime days, is the primary source of Other Funds revenue for the hospital. In addition to having coverage, patients must also meet medical necessity criteria for hospital level of care to be billable. Patients that don't meet the level of care requirements cannot always be immediately discharged. Neither Medicare nor

other insurers reimburse the lesser level of care. The lack of patient insurance coverage combined with the hospital's response to the pandemic, which limited admissions for several weeks, are primary drivers for new 2019-21 revenue projections, indicating a \$12,949,152 General Fund shortfall.

*Severely Ill Patient* - The Oregon State Hospital is caring for a severely ill patient admitted from the Department of Corrections. At the time of admission, the patient was a danger to themselves and others. To accommodate this patient, the hospital partially opened a unit in Junction City, housing only this patient, and assigned designated staff with specific treatment skills to administer therapy. The primary goal is eventual safe integration of the patient into the overall patient population. Due to the extremity of the circumstance, there is no clear roadmap as to when criteria for integration will be met. The hospital assigned specific staff that possess the requisite skills to care for this patient. Approximately 60 percent of the staff are from the Salem campus and 40 percent from the Junction City campus. This budget challenge reflects the cost of current Salem staff at projected steps and COLAs, as backfill will occur for those positions at presumably similar levels. Travel expenses for Salem staff is included. Junction City staff are not currently being backfilled. There is some risk of additional expense if treatment is unsuccessful and multiple injuries occur. To continue to provide the appropriate level of care, the hospital projects a \$2,642,266 General Fund need.

*Medicaid Recoupments* – The OHA Office of Program Integrity completed a series of hospital payment audits based on claims processed by the Medicaid Management Information System. Those audits determined that the Oregon State Hospital was overpaid for a variety of reasons stemming from systemic issues within both the payment system and the hospital's billing and documentation processes. The Legislature provided General Fund relief for a portion of these overpayments at the August Special Session. All components of the audits are now final. The Oregon State Hospital has a \$1,003,349 General Fund need remaining.

*Security System for Junction City Campus* – A security server ceased operation at the Junction City campus and had to be replaced by a backup. This prompted the vendor for security servers to notify the hospital that all the security servers are at the end of their lifecycle and no longer supported by the vendor. The system is currently functional but no longer has any available replacement or service options if any other equipment fails. To fully replace and update the security system, the hospital is requesting \$233,640 General Fund.

*Projected Expenditure Savings* – The Oregon State Hospital is projecting \$14,243,992 in General Fund savings for the biennium. These one-time savings reflect the re-projection of costs for the rest of the biennium after one year of hospital operations. It is important to note, however, that this savings projection is contingent on distribution of the salary pot.

*Federal Medicaid Match Savings* – The Families First Coronavirus Response Act temporarily increased by 6.2 percent the Federal Medical Assistance Percentage (FMAP) rate beginning January 1, 2020, through the calendar quarter in which the public health emergency ends. This federal rate increase saves \$928,842 in General Fund needed to draw down Medicaid disproportionate share hospital (DSH) allotment dollars. The savings reflect three calendar quarters of increased FMAP. The hospital will calculate additional savings for the spring rebalance as the federal government has extended the public health emergency to January 21, 2021.

### **Health Systems Division**

The Health Systems Division projects a \$598,594 General Fund need and \$54,568,416 in General Fund savings for net of \$53,969,822 in General Fund savings.

*Federally Mandated System Changes* – The Health Systems Division holds the budget to pay for Office of Information Services (OIS) staff and a contracted vendor to update the Medicaid Management Information System to implement legislative policy and programs, and to comply with federal mandates from the Centers for Medicare & Medicaid Services. Because of the budget and staffing limitations, the agency prioritizes system changes to ensure critical updates are managed within appropriate timelines; however, those limitations have been further stretched because of increased system work related to the Integrated Eligibility project and the COVID-19 public health emergency. To ensure CMS-mandated system changes are implemented timely in order to continue to receive federal funding under Medicaid, the Health Systems Division is requesting \$598,594 General Fund. Most Medicaid system changes are funded at a 90 percent federal match.

*Oregon Health Plan Caseload Update Savings* – The 2019-21 Legislatively Adopted Budget for the Oregon Health Plan, including Cover All Kids, was based on the Spring 2019 Caseload Forecast. At the August Special Session, the legislature adjusted the caseload budget based on a preliminary caseload estimate. Updating the Oregon Health Plan caseload budget, as adjusted by August Special Session, to the Fall 2020 Caseload Forecast results in \$32,859,700 General Fund caseload savings for this rebalance. That

forecast, which was finalized in September, assumed the COVID-19 public health emergency expired on October 23, 2020.

As noted, the federal government extended the public health emergency to January 21, 2021, which also extends the enhanced Medicaid match rate and eligibility policies that keep people on the Oregon Health Plan longer. Although not included as part of this rebalance, OHA estimates \$76.5 million in projected General Fund savings from enhanced Medicaid match through March 2021 and \$34.9 million in projected General Fund costs from extending Medicaid eligibility policies that limit disenrollment.

*Insurers Tax Update Savings* – The Health Systems Division is projecting \$21,708,716 in General Fund savings as the result of Fall 2020 Caseload Forecast update and its projected increase to CCO enrollment.

*Certified Community Behavioral Health Clinics (CCBHC)* – CCBHCs provide access to a quality set of comprehensive and integrated services through a flexible and prospective payment system (PPS) like Federally Qualified Health Centers. Oregon participated in a federal CCBHC demonstration, where CCBHCs received an increase by over ten percent of federal match. The federal demonstration was originally scheduled to end in June 2019 and OHA's 2019-21 budget did not include funding for the clinics. The program has been extended through November 2020 and nine counties have agreed to use a portion of the mental health funding they receive from the state to continue funding their local CCBHCs by reducing the amount of General Fund in county contracts. To account for this change in funding source, OHA is making a technical adjustment to transfer \$4,539,105 General Fund from Non-Medicaid to Medicaid within the Health Systems Division budget.

*Funding Transfer for Reproductive Health Services* – The 2017 Legislature passed House Bill 3391, effective January 2018, which expanded coverage for certain reproductive health services to individuals who can become pregnant and would be eligible for Medicaid except for their immigration status. As required by the bill, the Oregon Health Authority covers the costs of those services for individuals in the Citizen-Alien Waived Emergency Medical program (CAWEM). OHA requests a technical adjustment to move \$557,787 budgeted in the Public Health Division for these services to the Health Systems Division, where the CAWEM program is budgeted.

### **Public Health Division**

*Domestic Well Water Testing* – Since 2013, federal grants have supported the Domestic Well Water Safety Program (DWSP), but those grant opportunities ended in September 2020. The DWSP focus is to act upon well contaminant data submitted to OHA pursuant to Oregon’s Domestic Well Testing Act (DWTA; ORS 448.271). When a home is sold that includes a well that supplies ground water for domestic purpose, the seller is required to have the water tested for arsenic, nitrates and total coliform bacteria. That report is sent to OHA. OHA then uses this data to educate people in Oregon on the importance of well testing, water treatment and wellhead stewardship. This program serves residents in underserved rural communities by informing them about the risks associated with consuming domestic well water and the steps they can take to minimize risk and associated poor health. The staff funded are critical to improving our knowledge about those risks and tailoring outreach to meet affected populations. The Public Health Division requests \$86,603 to continue performing program activities required by statute.

### **OHA Central Services/Health Systems Division**

*Treasury Loan Interest* – Because there is a time lag between expenditures and the receipt of Other Fund revenues budgeted in OHA, the agency must obtain a treasury loan to meet its cashflow needs at the end of the biennium. OHA estimates it will need to pay \$1.5 million in loan interest. OHA is requesting \$500 million in Other Funds limitation in Health System Division.

On the next page is a table that displays the OHA Rebalance costs and savings by fund type and requests for position authority.



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

<b>Challenges</b>	<b>General Fund</b> Need/(Savings)	<b>Other Funds</b> Need/(Savings)	<b>Federal Funds</b> Need/(Savings)	<b>Total Funds</b> Need/(Savings)	<b>Pos.</b>	<b>FTE</b>
OSH Revenue Shortfall	\$12.9	\$(10.9)	(\$2.0)	-		
OSH Services for Severely Ill Patient	\$2.6	-	-	\$2.6		
Central Treasury Loan Interest	\$1.5	-	-	\$1.5		
OSH Medicaid Recoupments	\$1.0	-	-	\$1.0		
HSD Federally Mandated System Changes	\$0.6	-	\$4.1	\$4.7		
OSH Security System Junction City Campus	\$0.2	-	\$0.2	\$0.2		
PH Domestic Well Water Testing	\$0.1	-	(\$0.1)	-		
<b>Total Challenges</b>	<b>\$19.0</b>	<b>(\$10.9)</b>	<b>\$2.0</b>	<b>\$10.1</b>	<b>0</b>	<b>0.00</b>
<b>Savings</b>						
HSD Insurers Tax Update Savings	(\$21.7)	\$28.2	\$20.4	\$26.9		
OSH Projected Expenditure Savings	(\$14.2)	-	-	(\$14.2)		
HSD Caseload Update Savings	(\$32.9)	-	(\$96.0)	(\$128.9)		
OSH Federal Medicaid Match Savings	(\$0.9)	-	\$0.9	-		
<b>Total Savings</b>	<b>(\$69.7)</b>	<b>\$28.2</b>	<b>(\$74.7)</b>	<b>(\$116.2)</b>	<b>0</b>	<b>0.00</b>
<b>Limitation Adjustments</b>						
HSD Treasury Loan Limitation	-	\$500.0	-	\$500.0		
PH SAMHSA Implement Zero Suicide	-	-	\$0.5	\$0.5	1	0.25
PH Strengthening Environmental Health Capacity	-	-	\$0.4	\$0.4	1	0.25
HSD Opioid Grant Position	-	-	\$0.1	\$0.1	1	0.33
PH Firearm Surveillance Through Emergency Rooms (FASTER)	-	-	\$0.1	\$0.1		
PH OF/FF Position Realignment	-	\$0.1	(\$0.1)	-		
<b>Total Limitation Adjustments</b>	<b>-</b>	<b>\$500.1</b>	<b>\$1.0</b>	<b>\$501.1</b>	<b>3</b>	<b>0.83</b>
<b>Technical Adjustments</b>						
HSD Remove CCBHC Funding from Non-Medicaid	(\$4.5)	-	-	(\$4.5)		
HSD Add Funding for CCBHCs to Medicaid	\$4.5	-	-	\$4.5		
PH Reproductive Health Realignment	(\$0.6)	-	-	(\$0.6)		
HSD Reproductive Health Realignment	\$0.6	-	-	\$0.6		
<b>Technical Adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>0.00</b>
<b>Net OHA Fall 20 Rebalance</b>	<b>(\$50.7)</b>	<b>\$517.3</b>	<b>(\$71.7)</b>	<b>\$394.9</b>	<b>3</b>	<b>0.83</b>

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

## **Risk Factors, Challenges and Outstanding Issues**

Challenges and outstanding issues that OHA will continue to closely monitor for the remainder of the biennium include:

- The COVID-19 pandemic and the state's response to it had a direct impact on hospitals. The Health Systems Division relies heavily on hospital tax revenue to fund the Oregon Health Plan while enhancing payments to hospitals serving individuals eligible for Medicaid and the Children's Health Insurance Program. Hospitals experienced a decrease in net patient revenue early in the pandemic. Revenues are bouncing back, but there is a risk that the recovery will not fully offset the impact.
- As required by a budget note (HB 5050, 2019 Regular Session), OHA is working with stakeholders on recommendations on how to update behavioral health caseload forecast methodologies, processes and related funding formulas. This caseload consists of individuals receiving services in the community either under civil commitment or guilty except for insanity decisions. Because of this ongoing work and concerns about underlying data, OHA is not including a caseload forecast adjustment for the Non-Medicaid mental health caseload at this time. Based on the Fall 2020 Caseload Forecast, the caseload for civil commitment is projected to decrease by 109 people per month and the caseload for guilty except for insanity is projected to increase by 7 people per month. The net caseload impact would have decreased the Non-Medicaid budget by \$18.5 million General Fund.
- Lastly, while this rebalance letter provides General Fund savings, OHA is submitting a separate request letter to the committee that includes a \$50 million General Fund budget challenge associated with Medicaid federal funding corrections.

## **ACTION REQUESTED**

Acknowledge receipt of the OHA Fall 2020 Rebalance Report.

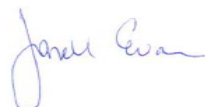
## **LEGISLATION AFFECTED**

See Attachment A.

Sincerely,



Patrick M. Allen  
Director



Janell Evans  
Budget Director

The Honorable Senator Peter Courtney, Co-Chair  
The Honorable Representative Tina Kotek, Co-Chair  
November 4, 2019  
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Enc: Attachment A – Legislation Affected

EC: Tom MacDonald, Legislative Fiscal Office  
Ken Rocco, Legislative Fiscal Office  
Patrick Heath, Department of Administrative Services  
George Naughton, Department of Administrative Services

## ATTACHMENT A

### OREGON HEALTH AUTHORITY FALL 2020 REBALANCE ACTIONS APPROPRIATION AND LIMITATION ADJUSTMENTS

<b>DIVISION</b>	<b>PROPOSED LEGISLATION / SECTION</b>	<b>FUND</b>	<b>REBALANCE ADJUSTMENTS</b>	<b>APPR #</b>
<b>Central/SAEC</b>	Ch 695 1(3)	General	\$1,358,124	87401
	Ch 695 3(2)	Lottery	0	44401
	Ch 695 2(3)	Other	\$29,293	34401
	Ch 695 4(3)	Federal	\$306,299	64401
		Total	\$1,693,716	
<b>Shared Services</b>	Ch 695 2(4)	Other	\$0	34402
<b>OSH</b>	Ch 695 1(2)	General	\$2,141,524	87802
	Ch 695 2(2)	Other	(\$10,940,989)	34802
	Ch 695 4(2)	Federal	(\$1,079,321)	64802
		Total	(\$9,878,786)	
<b>OHA Health Services Programs</b>	Ch 695 1(1)	General	(\$53,550,847)	87801
	Ch 629 11	General	(\$591,974)	87828
	Ch 560 7	General	(\$84,473)	87829
	Ch 695 3(1)	Lottery	\$0	44801
	Ch 695 2(1)	Other	\$528,241,291	34801
	Ch 695 4(1)	Federal	(\$70,933,605)	64801
	Ch 695 Sec. 6	Other PEBB Revolving Fund	\$0	34804
	Ch 695 Sec. 7	Other OEGB Revolving Fund	\$0	34805
		Total	\$403,080,392	