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Ways and Means**

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To: Human Services Subcommittee

From: Tom MacDonald, Legislative Fiscal Office

Date: June 13, 2019

Subject: SB 5525 – Oregon Health Authority - Health Systems Division
Work Session Recommendations

Oregon Health Authority – Health Systems Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 LFO Recommended
General Fund	1,429,495,915	1,315,305,253	2,317,851,205	1,824,601,029
Lottery Funds	11,113,255	12,243,339	12,762,588	16,824,779
Other Funds	2,045,263,476	3,574,960,109	2,539,162,810	3,255,806,476
Federal Funds	10,783,582,209	11,262,021,067	11,138,814,776	12,149,114,715
Total Funds	14,269,454,855	16,164,529,768	16,008,591,379	17,246,346,999
Positions	623	316	297	331
FTE	609.97	458.20	289.63	320.13

Attached are recommendations from the Legislative Fiscal Office (LFO) for the Health Systems Division budget within the Oregon Health Authority (OHA). The recommended total funds budget represents a 6.7 percent increase from the 2017-19 legislatively approved budget (LAB) and a 7.7 percent increase from the 2019-21 current service level (CSL). The recommended General Fund budget represents a 38.7 percent increase from the 2017-19 LAB and a 21.3 percent decrease from the 2019-21 CSL.

The variation of General Fund between LAB, CSL, and the LFO recommendation largely deals with the decreased availability of Federal Funds revenue and expiring provider assessments recognized at CSL, resulting in a higher level of General Fund needed to maintain the existing health care services provided by the Oregon Health Plan. The Legislature addressed a significant portion of this issue in February 2019 through the adoption of House Bill 2010, which reestablishes the insurance premium assessment at a rate of 2 percent. LFO’s recommended budget incorporates the budgetary changes related to this bill.

Additionally, given the magnitude of the decreased Federal and Other Funds revenue in the CSL budget, there are numerous other General Fund adjustments. At a high level, the table below summarizes the General Fund costs and savings included in the recommendation.

Recommended General Fund Adjustments from CSL	General Fund Change \$ in millions
Provider Assessments / OHSU IGT	(\$553.9)
Other Funds Revenue (tobacco; marijuana taxes)	(\$16.6)
Behavioral Health Investments	\$38.9
Provider Rate Increases (Behavioral Health)	\$10.0
Casload - Oregon Health Plan / Non-Medicaid	\$33.7
Housing, Targeted Addictions / Health Investments	\$8.0
Other Net Adjustments	(\$13.4)
General Fund Change from CSL	(\$493.3)

Current Service Level Challenges: Similar to the 2017-19 biennium, the predominant challenge during the 2019-21 HSD budget development process was the growth in the level of state funds needed to sustain the Oregon Health Plan (OHP) absent any changes to program revenue or significant reductions in health care services. The OHP General Fund CSL budget, which was developed in mid-2018, represented a net \$922 million, or 90 percent, increase from the 2017-19 LAB at that point in time. This CSL increase was primarily the result of Federal Funds and Other Funds revenue issues that shifted costs to the General Fund. The key drivers of these cost shifts were the following:

- *Federal Match Changes* - Due to decreases in Oregon’s Federal Medical Assistance Percentage (FMAP) rates, more state funds are needed to pay for Medicaid services. This resulted in a \$442 million shift from Federal Funds to the General Fund. Nearly half of this cost shift was due to the stepdown of the FMAP for the Affordable Care Act (ACA) caseload. This FMAP will reach its statutory floor of 90 percent in 2020.
- *Hospital and Insurer Assessment Sunset* - House Bill 2391 (2017) established a 0.7 percent tax on diagnostic related group (DRG) hospitals and a 1.5 percent insurance premium assessment to support OHP. Due to the statutory sunsets for these revenue sources, the CSL budget recognized a cost shift of \$308 million from Other Funds to the General Fund.
- *Other Revenue Issues* - When inflation is calculated for OHP during the budget process, the calculation is spread across all of the program’s fund sources, including, for example, tobacco tax revenue. However, these other sources of revenue cannot always fund the level of calculated inflation, which results in a fund shift to the General Fund. The reversal of one-time Tobacco Master Settlement Agreement revenue used in 2017-19 and declining tobacco tax revenue also impacted the General Fund. Taken together, these Other Funds issues resulted in a shift of \$229 million from Other Funds to the General Fund.

Revenue Changes and Savings (Package 801): In light of the FMAP decreases, expiring provider assessments, and other revenue issues impacting OHP, the Legislature adopted House Bill 2010, which reinstates the insurer assessment at 2 percent and broadens it to include stop-loss

insurance premiums. The recommended budget includes General Fund savings of \$281 million as a result this action.

Apart from House Bill 2010, the budget reflects an increase in the DRG assessment to 6 percent and an increase in the rural A/B hospital assessment to 5.5 percent, both according to the fully reimbursable assessment model. These increases, which can be done administratively by OHA within certain parameters defined by federal and state law, are based on a January 1, 2020 implementation date. The change to the DRG assessment is estimated to save \$98 million General Fund and the change to the rural A/B assessment is estimated to save \$33 million General Fund.

The budget also recognizes General Fund savings from multiple budget adjustments related to the OHSU intergovernmental transfer (IGT). First, an increase to the IGT contribution provided by OHSU offsets General Fund costs by \$25 million. A total of \$116 million in savings is also achieved through updated IGT revenue estimates in accordance with program growth and through the use of on-going IGT revenue initially considered to be contingency revenue prior to the program's full biennial roll-out.

Medicaid and Non-Medicaid Caseload Forecasts: The budget includes adjustments consistent with forecasted caseload changes. For Medicaid, the Spring 2019 forecast is higher by a net 18,480 compared to the Fall 2018 forecast, which was used to develop the CSL budget. Most caseload categories are forecasted to decrease or not significantly change in comparison to the Fall 2018 forecast. Notably, the Children's Medicaid caseload is expected to decrease by over 5,000. To an extent, this decrease corresponds to a forecasted increase of over 1,200 for the Children's Health Insurance Program caseload, which has a higher income eligibility threshold. In contrast to these and the forecasted changes for other caseloads, the ACA and Parent/Caretaker Relative caseloads are forecasted to increase by approximately 12,300 and 12,600, respectively. The cost of the increase in the ACA caseload is largely supported by Federal Funds given the higher federal match for this population. However, the Parent/Caretaker Relative caseload receives the traditional Medicaid match and requires a much larger amount of state funds. The overall impact of the Spring 2019 forecast for Medicaid is a General Fund cost of \$54.9 million and a Federal Funds increase of \$231.7 million.

For non-Medicaid community mental health programs, there are two caseloads that are part of the forecast process in terms of adjustments made to the budget: 1) individuals who have committed a crime and are determined to be guilty except for insanity (GEI); and 2) individuals who have been found by a court to be a danger to themselves or others or unable to provide for their own basic needs due to a mental illness and are civilly committed. As opposed to changes in the Medicaid caseloads, changes in the GEI and civil commitment caseloads impact the level of General Fund provided to county-based community mental health programs. The Spring 2019 forecast results in a slight increase in the GEI caseload, but a decrease of 109 in the monthly average civil commitment caseload. The result of these caseload changes is a decrease of \$18.5 million General Fund. When combined with a \$3.1 million General Fund increase at CSL based on Fall 2018 forecast, the net budget impact for community mental health caseload changes is a decrease of \$15.4 million General Fund. Although the intent of this budget change is to reflect caseload changes and not impact services, the size of this decrease has raised concerns regarding the potential impact on the community mental health system. As a result, the budget report for Senate Bill 5525 will include a budget note requiring a review of the

caseload methodologies, processes, and related funding formulas prior to the 2020 session and for OHA to present recommendations to the Legislature.

Investments: The budget recommendations include multiple investments, most of which support behavioral health programs. The following summarizes the key changes:

- *Behavioral Health Investment Package* - As part of the \$50 million General Fund behavioral health package, the HSD budget includes \$31.3 million to support investments related to recommendations from the Children and Youth with Specialized Needs workgroup, as well as other targeted behavioral health investments. In addition to the \$31.3 million, \$5.7 million General Fund will be included in a Special Purpose Appropriation for the establishment of behavioral health interdisciplinary assessment teams, as outlined in Senate Bill 1.
- *Provider Rates* - The recommendation includes \$13 million General Fund and related federal matching funds to increase certain rates for behavioral health providers. Of the \$13 million General Fund, \$3 million is from the behavioral health investment package.
- *Revenue Shortfall* - \$9.1 million General Fund is included to backfill declining tobacco revenue dedicated for community mental health services.
- *Behavioral Health IT System* - \$1.5 million General Fund will support the initial stage of OHA's non-Medicaid behavioral health IT system replacement project.
- *Rental Assistance* - \$4.5 million General Fund will provide partial biennium support for individuals living in permanent supportive housing units. This investment corresponds to the planned construction of 500 new permanent supportive housing units funded through the capital construction process.

Additional recommended investments and budget adjustments can be found in the attached table.

Adjustments to Current Service Level

See attached "Work Session Presentation Report."

Note: Statewide adjustments and six-year capital construction expenditures are not included in these recommendations. Any needed adjustments will be made in end of session bills.

LFO recommends the Subcommittee approve a 2019-21 Health Systems Division preliminary budget of:

\$ 1,824,601,029	General Fund
\$ 16,824,779	Lottery Funds
\$ 3,255,806,476	Other Funds
\$ 12,149,114,715	Federal Funds

331 Positions
320.13 FTE

Accept LFO Recommendation:

MOTION: I move the LFO recommendation to SB 5525. (VOTE)

OR

Change LFO Recommendation:

MOTION: I move the LFO recommendation to SB 5525, with modifications. (VOTE)

Performance Measures

All agency performance measures will be presented for approval as part of the final action on the OHA budget.

Recommended Changes

The Health Systems Division budget is part of SB 5525, which is the budget bill for the entire Oregon Health Authority. The recommended amendments to SB 5525 will be presented after work sessions are completed on all parts of the budget.

OREGON HEALTH AUTHORITY: HEALTH SYSTEMS DIVISION

SB 5525 WORK SESSION

	GEN FUND	LOTTERY	OTHER	FEDERAL	NL Other Funds	NL Fed Funds	Total Funds	POS	FTE	Comments
2017-19 Legislatively Approved Budget (As of June 2019)	1,315,305,253	12,243,339	3,574,960,109	11,262,021,067	-	-	16,164,529,768	316	458.20	
2019-21 Current Service Level	2,317,851,205	12,762,588	2,539,162,810	11,138,814,776	-	-	16,008,591,379	297	289.63	
2019-21 Governor's Budget	1,568,517,617	12,658,194	3,360,871,463	11,241,216,329	-	-	16,183,263,603	329	321.53	
2019-21 LFO RECOMMENDED BUDGET	1,824,601,029	16,824,779	3,255,806,476	12,149,114,715	-	-	17,246,346,999	331	320.13	

2019-21 LFO RECOMMENDED BUDGET ADJUSTMENTS

1	2019-21 Current Service Level Estimate	2,317,851,205	12,762,588	2,539,162,810	11,138,814,776	-	-	16,008,591,379	297	289.63	
2	LFO Recommendations of Existing Packages										
3	Pkg 070: Revenue shortfalls	-	-	(8,790,947)	-	-	(8,790,947)	-	-	-	Tobacco revenue shortfall
4	Pkg 095: December 2018 Rebalance	2,725,987	-	7,362,657	33,124,161	-	-	43,212,805	15	14.50	Technical adjustments
5	Pkg 202: Medicaid Modularity	547,409	-	-	1,677,969	-	-	2,225,378	3	3.00	MMIS project
6	Pkg 413: Behavioral Health Funding Shortfall	9,132,500	-	-	-	-	-	9,132,500	-	-	
7	Pkg 414: Behavioral Health IT System Project	1,500,000	-	-	-	-	-	1,500,000	2	1.76	Support initial stage
8	Pkg 416: CCO 2.0	585,286	-	70,828	(106,409)	-	-	549,705	9	6.10	Staff and SB 2267
9											
10	Other Recommended Adjustments										
11	Pkg 801: LFO Analyst Adjustments										
12	Insurer assessment - increase to 2%	(281,000,000)	-	326,000,000	134,000,000	-	-	179,000,000	-	-	HB 2010
13	DRG hospital assessment adjustment	(98,000,000)	-	135,000,000	97,000,000	-	-	134,000,000	-	-	Increase to 6%
14	OHSU Inter-governmental transfer adjustments	(141,000,000)	-	165,667,000	70,819,000	-	-	95,486,000	-	-	
15	Rural A/B hospital assessment	(33,000,000)	-	46,000,000	33,000,000	-	-	46,000,000	-	-	Increase to 5.5%
16	Hospital Assessment carryover and DSH	(7,576,561)	-	30,000,000	36,476,561	-	-	58,900,000	-	-	
17	CCO Quality Incentive Pool	(6,700,000)	-	-	(25,000,000)	-	-	(31,700,000)	-	-	Reflects OHA change to 2019 pool
18	Rural hospital initiative carryover	-	-	1,737,628	-	-	-	1,737,628	-	-	
19	Dual eligibles - reverse one-time 2017-19 investment	(4,500,693)	-	-	(9,468,099)	-	-	(13,968,792)	-	-	Transition to CCOs
20	Reverse phase-in of hepatitis C 2017-19 funding	(3,564,000)	-	-	(30,584,343)	-	-	(34,148,343)	-	-	
21	Hold CCO inflation to 3.3%	(6,700,000)	-	-	(25,000,000)	-	-	(31,700,000)	-	-	
22	Medicaid caseload forecast - Spring 2019	54,900,179	-	-	231,677,131	-	-	286,577,310	-	-	
23	Non-Medicaid caseload forecast - Spring 2019	(18,459,935)	-	-	-	-	-	(18,459,935)	-	-	
24	Cover All Kids caseload forecast - Spring 2019	(2,775,965)	-	-	-	-	-	(2,775,965)	-	-	
25	Rental Assistance - permanent supportive housing	4,500,000	-	-	-	-	-	4,500,000	-	-	
26	Project Nurture	2,500,000	-	-	-	-	-	2,500,000	-	-	
27	Project ECHO	1,000,000	-	-	-	-	-	1,000,000	-	-	
28	1915i eligibility changes for residential services	4,333,459	-	-	1,484,454	-	-	5,817,913	-	-	
29	Part D Clawback and Federal Funds limitation	3,539,207	-	-	406,046,264	-	-	409,585,471	-	-	

	GEN FUND	LOTTERY	OTHER	FEDERAL	NL Other Funds	NL Fed Funds	Total Funds	POS	FTE	Comments
30	FMAP match rate change	2,652,000	-	93,000	(2,745,000)	-	-	-	-	-
31	Marijuana tax revenue adjustment	(14,236,000)	-	14,236,000	-	-	-	-	-	-
32	Tobacco tax forecast Medicaid - May 2019	4,058,000	-	(4,058,000)	-	-	-	-	-	-
33	Tobacco tax forecast non-Medicaid- May 2019	484,000	-	(484,000)	-	-	-	-	-	-
34	Tobacco Master Settlement revenue	(6,200,000)	-	6,200,000	-	-	-	-	-	One-time
35	Correction of CSL tobacco tax adjustment	(679,979)	-	-	-	-	(679,979)	-	-	-
36	Use Lottery Funds for veterans' behavioral health	(2,500,000)	2,500,000	-	-	-	-	-	-	-
37	Alcohol and Drug Policy Commission	93,590	-	-	-	-	93,590	(1)	-	-
38	Vacancy savings	(356,166)	-	-	-	-	(356,166)	-	-	-
39	Lottery forecast - May 2019	-	1,562,191	-	-	-	1,562,191	-	-	-
40	Primary & Behavioral Health Care grant	-	-	-	4,500,000	-	4,500,000	-	-	-
41	Supplemental State Opioid Response grant	-	-	-	4,109,241	-	4,109,241	-	-	-
42	Other Funds limitation true-up	-	-	(2,418,160)	-	-	(2,418,160)	-	-	-
43	Technical adjustments and transfers	189,276	-	27,660	(75,475)	-	141,461	-	-	-
44	Position true-up	-	-	-	-	-	-	1	1.00	-
45	BH provider rates	10,000,000	-	-	27,900,000	-	37,900,000	-	-	Ties to \$3M funded in pkg 802 (item #50)
46	Pkg 802: \$50M Behavioral Health Investment	-	-	-	-	-	-	-	-	-
47	System of Care Advisory Council	1,000,000	-	-	-	-	1,000,000	2	1.50	-
48	Intensive In-Home Behavioral Health Services	6,575,316	-	-	13,064,484	-	19,639,800	-	-	-
49	Crisis and transition services	3,070,000	-	-	-	-	3,070,000	-	-	-
50	Aid and Assist Community Investments	7,612,914	-	-	-	-	7,612,914	-	-	-
51	BH provider rates	3,000,000	-	-	8,400,000	-	11,400,000	-	-	Ties to \$10M funded in pkg 801 (item #44)
52	School-Based Mental Health/Suicide Prevention	10,000,000	-	-	-	-	10,000,000	3	2.64	-
53	Interdisciplinary Assessment Teams - SPA	-	-	-	-	-	-	-	-	\$5.7 million Special Purpose Appropriation
54										
55	Total Adjustments from CSL	(493,250,176)	4,062,191	716,643,666	1,010,299,939	-	1,237,755,620	34	30.50	
56										
57	TOTAL 2019-21 Recommended Budget	1,824,601,029	16,824,779	3,255,806,476	12,149,114,715	-	17,246,346,999	331	320.13	
58										
59	Change from 2017-19 Approved	509,295,776	4,581,440	(319,153,633)	887,093,648	-	1,081,817,231	15	(138.07)	
60	Change from 2019-21 CSL Estimate	(493,250,176)	4,062,191	716,643,666	1,010,299,939	-	1,237,755,620	34	30.50	
61	Change from 2019-21 Governor's Budget	256,083,412	4,166,585	(105,064,987)	907,898,386	-	1,063,083,396	2	(1.40)	
62										
63	% Change from 2017-19 Approved	38.7%	37.4%	-8.9%	7.9%	-	6.7%	4.7%	-30.1%	
64	% Change from 2019-21 CSL Estimate	-21.3%	31.8%	28.2%	9.1%	-	7.7%	11.4%	10.5%	
65	% Change from 2019-21 Governor's Budget	16.3%	32.9%	-3.1%	8.1%	-	6.6%	0.6%	-0.4%	