

## ANALYSIS

### Item 10: Oregon Health Authority

#### Fall 2025 Rebalance

**Analyst:** Matt Stayner

**Request:** Acknowledge the receipt of a report on the proposed fall 2025 budget rebalance request for the Oregon Health Authority.

**Analysis:** The fall 2025 budget rebalance is the first rebalance of the 2025-27 biennium and follows the September 2025 caseload and revenue forecasts. Although the initial rebalance items are formulated within three months following the end of the prior long legislative session, the actual budgetary adjustments are typically made during the following short session. This allows for adjustments to the reported rebalance request to account for updated revenue and caseload forecasts. As noted herein, there are significant changes between the December 2025 and September 2025 revenue forecasts. Additionally, substantive impacts to the fall caseload forecasts due to federal legislation were not fully incorporated, necessitating a caseload forecast update that is anticipated before the start of the 2026 legislative session.

The Oregon Health Authority (OHA) has chosen to use a “baseline” caseload forecast rather than the full caseload forecast to estimate the budgetary adjustments included in the report. This baseline forecast is intended to exclude caseload impacts of HR 1, reporting these in a separate joint request with the Department of Human Services (DHS).

Oregon Health Authority <i>Rebalance Summary</i>				
	General Fund	Total Funds	Positions	FTE
Revenue Forecast Adjustments	(5,280,887)	(6,231,000)	-	-
Revenue Adjustments	(24,000,000)	(173,000,000)	-	-
Caseload	(68,808,014)	(303,899,837)	-	-
Savings	(73,753,627)	(245,336,034)	-	-
Budget Challenges	10,542,136	125,146,899	4	2.52
Program Expansion	20,142,338	30,697,300	16	10.34
Technical Adjustment	74,538	8,221,501	2	1.63
<b>Total</b>	<b>(\$141,083,516)</b>	<b>(\$564,401,171)</b>	<b>22</b>	<b>14.49</b>

#### Revenue Adjustments

There are two adjustments included in the report due to changes in forecasted revenues as of the September 2025 forecast. A combined General Fund savings of \$5.3 million in the Oregon Health Plan and Behavioral Health programs is assumed due to increased Tobacco Tax

revenues; however, the more recent December 2025 forecast indicates a sharp decline in Tobacco Tax revenues, reversing the indicated the General Fund savings and instead resulting in a General Fund need of \$32.7 million. Although the report accounts for a \$6.2 million decline in Marijuana Tax revenues that support expenditures from the Drug Treatment and Recovery Services Fund (DTRSF), the December forecast nearly doubles this decline to \$12.1 million.

Two additional adjustments to revenues are included in the report that are separate from forecasted revenues. The first of these include decreases in expenditure limitation of \$29 million Other Funds and \$144 million Federal Funds related to the Oregon Health and Sciences University (OHSU) Intergovernmental Transfer (IGT). Due to a change in how Oregon accounts for the Hospital Provider Tax, expenditure limitation was established in the current biennium related to quality and access payments to OHSU. The associated revenues supporting these expenditures was received, and the payments made, in the prior biennium, thus necessitating the reduction in expenditure limitation in the current biennium. A portion of the revenues received under the IGT are used to support the Oregon Health Plan. Normally a reduction in these revenues in any given biennium would require a backfill of General Fund; however, in this case, that portion of the IGT revenues received in the prior biennium supporting the Oregon Health Plan were not expended in the prior biennium and remain available to OHA, thus no General Fund adjustment is necessary.

An increase in Other Funds expenditure limitation of \$24 million and its associated General Fund reduction are included to account for an increase in funding from Insurer Taxes transferred to OHA from the Department of Consumer and Business Services (DCBS). The 2% tax on health insurance plans is used by OHA to support the Oregon Health Plan and by DCBS to support the Reinsurance Program. The Reinsurance Program uses a combination of state funds (Insurers Tax) and federal funds through a Section 1332 Patient Protection and Affordable Care Act waiver to provide catastrophic loss coverage for insurers providing plans on the health insurance exchange that lowers overall premium costs of those plans. Over the past few years, increases in the federal contributions to this program have resulted in residual balances of state Insurer Tax revenues. The total estimated balance in excess of programmatic needs through the end of the 2025-27 biennium is \$47 million. The transfer of \$24 million of these excess revenues to OHA to offset General Fund leaves potentially \$23 million available for transfer.

#### Caseload Associated Adjustments

Caseload cost adjustments are reported by OHA for the Oregon Health Plan (OHP), Healthier Oregon Program (HOP), and the Basic Health Plan (OHP Bridge). These include changes to membership and categorical coverage, the Federal Medical Assistance Percentage (FMAP), and per-member, per-month, rates. The combined impact of these changes is a reduction of \$68.8 million General Fund, \$4.4 million Other Funds, and \$230.7 million Federal Funds.

The Medicaid (OHP) net General Fund increase of \$26.1 million results from a net program exits of just over 24,000 average individuals and movements between categorical coverage generating a projected savings of \$98.8 million, a savings of \$30.2 million due to changes in the average FMAP, and \$155.1 million in increased per-member, per-month rate payments to Coordinated Care Organizations (CCOs). While this increased costs for CCO rates is significant (\$564.6 million total funds), it's notable that this increase only covers the additional cost for calendar year 2026. The six months of calendar year 2027 that are included in the 2025-27 biennium remain unfunded pending future rate negotiations.

For the Healthier Oregon Program, the baseline forecast indicates declining average enrollment in both the adult and child caseload resulting in a \$72.1 million General Fund savings, including changes to the FMAP. This is partially offset by increased per-member, per-month rates totaling \$8.2 million General Fund. Additional General Fund savings of \$30.9 million are anticipated from risk corridor payments. The net result of these changes is a reduction of \$94.9 million General Fund and \$31.5 million Federal Funds.

The OHA rebalance report notes a requested reduction of \$391.1 million Federal Funds associated with the Basic Health Plan. Although the September 2025 caseload forecast indicates reduced average biennial enrollment by 7,556 individuals from the spring 2025 forecast, the vast majority of this reduction is associated with empty expenditure limitation due to overestimation of program participation and costs.

### Savings

OHA reports budgetary savings from three items that are better described as budgetary adjustments, as the reduction in current biennium expenditures is a result of the associated items being expended in the prior biennium.

HB 5030 (2023) provided the Behavioral Health Division (BHD) with \$50 million in Other Funds expenditure limitation to spend lottery revenue bond proceeds for costs related to the Acute Psychiatric Care Facility Expansion. The 2025-27 legislatively adopted budget (LAB) included \$50 million in Other Funds to reestablish expenditure limitation for the bond proceeds in the current biennium, based on the assumption that the funds would not be expended in the 2023-25 biennium. However, actual expenditures of \$17.4 million Other Funds were paid in the 2023-25 biennium, resulting in empty limitation of the same amount in the 2025-27 LAB, which OHA is requesting to be removed in the rebalance. The remaining funds, totaling \$32.6 million Other Funds, are obligated and BHD expects all funds to be expended by June 30, 2027.

HB 5025 (2025) included \$10.7 million in Other Funds expenditure limitation, to expend American Rescue Plan Act funding from the State and Local Fiscal Recovery Fund (SLFRF) award that passed through the Department of Administrative Services to the Oregon Health Authority

to support the Clinical Supervision and Workforce programs. The SLFRF awards were originally approved in the 2021-23 biennium for the Clinical Supervision program (\$20 million) and the Workforce program (\$60 million). Most funding was expended in the 2021-23 and 2023-25 biennia. Although originally anticipated to be \$10.7 million, the remaining funding available to spend in the 2025-27 is approximately \$3.6 million, resulting in the \$7.1 million Other Funds reduction included in this rebalance to remove empty limitation from the budget.

SB 5525 (2023) appropriated \$15 million General Fund to BHD to expand Substance Use Disorder Child/Family Recovery Capacity. SB 5547 (2025) included a reduction of \$13.5 million General Fund to shift funding from the 2023-25 biennium to the 2025-27 biennium in anticipation of contracts being paid after June 30, 2025. BHD was able to process some of the contracts more quickly than originally anticipated before the end of the 2023-25 biennium. The \$10.7 million in costs paid in the 2023-25 biennium were paid with one-time savings from other BHD programs that would have otherwise reverted to the General Fund at the end of the 2023-25 biennium, necessitating the \$10.7 million General Fund reduction included in the rebalance for the current biennium. It is important to note that this reduction is also included in the list of budget reduction options that OHA provided to the Legislature in response to the possible statewide budgetary shortfall.

The remaining savings item is a \$63 million General Fund (\$210.2 million total funds) reduction in funding for the CCO Quality Incentive Pool. For calendar years 2025 and 2026, 4.25% of CCO capitation rates are budgeted to support the Quality Incentive Pool. OHA's 2025-27 LAB reduced this amount for calendar year 2025 from 4.25% to 3.48%, resulting in a General Fund reduction of \$18.6 million. The proposed rebalance item further reduces the calendar year 2025 rate from 3.48% to 3% and the calendar year 2026 rate from 4.25% to 2% to achieve the \$63 million General Fund savings indicated. As noted in the OHA rebalance report, this savings is intended to partially offset the increased calendar year 2026 CCO rate increases discussed in the caseload section above. It is important to note that this reduction is also included in the list of budget reduction options that OHA provided to the Legislature in response to the possible statewide budgetary shortfall.

### Budget Challenges

OHA has included a number of budget challenges in its report. The majority of these are somewhat technical in nature, dealing with Other Funds and Federal Funds expenditure limitation for multiple programs, and adjusting pass-through funding for shared services functions. Two of the items have policy implications that merit further consideration.

OHA is proposing to establish four positions to support court-ordered compliance efforts in the Mink-Bowman aid and assist case. This case management is currently being done through professional services contracts. The report states that the positions are cost-neutral, meaning

that no additional funding is being requested. Instead, the agency intends to reduce professional services contract funding to cover the position costs. There are two notable issues with this proposal. First, the reduction to the contracted services is only covering the new positions at 2.52 FTE, with the subsequent roll-up and position inflation approximately double the proposed reduction in contract costs. Additionally, this action is also included in the list of budget reduction options that OHA provided to the Legislature in response to the possible statewide budgetary shortfall. However, on that list, the agency noted a savings of \$1.6 million total funds.

OHA is requesting \$10.3 million General Fund, \$34.1 million total funds to address the costs associated with Center for Medicare and Medicaid Services (CMS) required services that had previously been unfunded in the prioritized list. This change in how Oregon's prioritized list is used, requiring the funding of all CMS required benefits regardless of where they fall on the list, will go into effect beginning in calendar year 2027. Therefore, the requested only covers six months of costs in the current biennium. The roll-up costs for the 2027-29 biennium are estimated to be in the range of \$41 to \$50 million General Fund, \$145 million total funds. Policy options that could mitigate these costs include the reduction of coverage for optional services that are currently funded on the prioritized list or not applying this change to the Healthier Oregon Program.

### Program Expansion

The rebalance report includes proposed expansions of existing programs throughout the agency that would establish 16 new positions (10.34 FTE) at a total cost of \$20.1 million General Fund, \$30.7 million total funds.

Position authority for five new positions and associated expenditure limitation of \$833,537 is requested to expand the capacity of the Health Care Regulation Quality Improvement (HCRQI) section within the Public Health Division. This is a reprise of the request for additional positions that was proposed by the agency for SB 842 (2025), which raised fees for hospital inspections. However, the additional fees anticipated to be collected in 2025-27 will just cover the expenditure overruns for the program from 2023-25 while funding existing expenditures in 2025-27. Adding new positions would cause deficit spending in the program.

Position authority and associated Other Funds expenditure authority in the Health Licensing Office is requested for position that was not approved in HB 2594 (2025) dealing with statutory changes to dental laboratory regulation. The fiscal impact for the bill was minimal and the need for the position is not well supported.

OHA had included a policy option package as part of its budget request during the 2025 session that included funding and position authority for the expansion of Behavioral Rehabilitation

Services (BRS). This package, which included the addition of 10 new positions, was not approved as part of the legislatively adopted budget. BRS is a Medicaid service for youth with severe behavioral challenges. The primary users of the service are DHS and the Oregon Youth Authority. Services for those who are not in foster care, or the juvenile justice system are limited to the counties who use a portion of their Community Mental Health Program (CMHP) funding as a source of Medicaid match. BRS is not a behavioral health treatment program but a service providing structure and skill development. The rebalance requested funding of \$9.3 million General Fund and \$8.6 million Federal Funds is nearly identical to the original budget bill request but does not include the position authority.

The Behavioral Health Division is seeking to substantially expand its Intensive Services Unit, including the addition of seven new positions (4.41 FTE). Total requested funding is \$10.7 million General Fund and \$564,159 Federal Funds. OHA is proposing that the General Fund portion of the request come from redirecting the savings from Substance Use Disorder Child/Family Recovery Capacity spending that – as noted previously – is not true savings, but rather a shift of expenditures between biennia. Additionally, the expansion requested would be an ongoing cost and would increase with the roll-up of the established positions, while the budget reduction noted would be one-time-only.

#### Technical Adjustments

The rebalance makes 48 individual technical adjustments. These changes move authorized funding and position authority between and within budgetary units and make net zero position and programmatic adjustments. The only exception to this is within a package of adjustments that were made to adjust funding for the shared services functions at both OHA and DHS that resulted in an increase of \$74,538 General Fund, \$572,425 Other Funds, and \$7.6 million Federal Funds.

**Recommendation:** The Legislative Fiscal Office recommends that the Joint Interim Committee on Ways and Means acknowledge the receipt of the Oregon Health Authority's budget rebalance report, with the understanding the Legislative Fiscal Office will develop recommendations for budgetary changes to be included in a budget reconciliation bill during the 2026 legislative session.

**Request:** Report on the Oregon Health Authority's (OHA) fall 2025 budget rebalance.

**Recommendation:** Acknowledge receipt of the report.

**Discussion:** OHA conducts a budget rebalancing exercise three times a biennium to ensure the diverse funding streams and programs are sufficiently supported in OHA's budget throughout the biennium. In this first rebalance of the 2025-27 biennium, OHA reports net savings of \$141.2 million General Fund, a need for \$3.1 million Other Funds expenditure limitation, a savings of \$434.0 million Federal Funds expenditure limitation, and a need to establish 22 positions (14.49 FTE). The agency's report describes various factors contributing to the budget rebalance including, but not limited to, changes in the caseload forecast, updates to federal Medicaid match rates, revisions to various revenue forecasts including dedicated state tax revenues, coordinated care organization (CCO) capitation rate modifications, and other budgetary adjustments identified by OHA pursuant to implementing legislation and other operational needs.

**Medicaid and Children's Health Insurance Program (CHIP) Caseload Savings**

The fall 2025 Medicaid and CHIP caseload forecast reported reductions affecting most medical assistance eligibility groups resulting in net savings of \$98.9 million General Fund and a decrease of \$252.1 million Federal Funds. The caseload reductions are primarily attributable to resequencing redetermination dates pursuant to the public health emergency unwinding and infrastructure changes related to shifting the state's eligibility system to a cloud-hosted environment. The reported savings due to Medicaid and CHIP caseload forecast changes exclude House Resolution (H.R.) 1 caseload impacts – those impacts will be reported separately.

At the start of the COVID-19 pandemic, the federal Family First Coronavirus Recovery Act provided states an enhanced federal Medicaid match rate of 6.2 percent and directed participating states to maintain Medicaid members' coverage for the duration of the public health emergency (PHE). Largely due to Oregon's participation in the enhanced federal match program, enrollment in the Oregon Health Plan (OHP) increased significantly. With the PHE unwinding, Oregon returned to its regular redetermination process to identify medical coverage options available for existing Medicaid recipients under the post-pandemic provisions – the pandemic-related redetermination workload was completed in summer 2025. The fall 2025 caseload forecast assumes that the increase in rates of exits and transfers observed due to processing resequenced caseloads will be stable and maintained through 2026 before reaching equilibrium.

Another factor contributing to the reported caseload savings is related to the ONE system. The system experienced several disruptions during summer 2025 due to infrastructure changes associated with transitioning to a cloud-hosted environment. These disruptions coincided with a decline in some caseload processing and applications for new enrollees into some Oregon Department of Human Services

(ODHS) and OHA programs. The caseload forecast assumes that these technical difficulties and delays will not result in backdated cases as confirmed by the director of the ODHS Oregon Eligibility Partnership – the program responsible for maintaining the ONE system on behalf of ODHS and OHA.

Though General Fund savings were projected based on the fall 2025 caseload forecast, subsequent guidance provided by CMS after the forecast was finalized prompted forecasters to modify the assumptions used and update the forecast for distribution by the 2026 regular session. As more information was distributed from CMS associated with the implementation of H.R. 1, forecasters were notified that the assumptions used for developing the fall 2025 caseload forecast were no longer applicable. Specifically, the forecast assumed the CMS-approved 1115 waiver for continuous eligibility would remain in effect through 2027 delaying the implementation of work requirement and redetermination provisions until January 2028. Subsequent guidance provided by CMS amended the 1115 waiver timeframes potentially impacting the forecast. While it is anticipated the forecast changes will only affect the H.R.1 related caseloads (reported separately), it is possible the rebalance related caseloads could change.

#### Healthier Oregon Program Savings

OHA reported net General Fund savings of \$94.9 million and a decrease of \$31.5 million Federal Funds attributable to the Healthier Oregon Program (HOP). These savings are the result of several factors including caseload declines affecting adult, child and pregnant populations; higher than projected reimbursements from Coordinated Care Organizations (CCOs) following the 2024 risk corridor settlements; modifications to 2026 CCO capitation rates; and changes to the FMAP rates for emergency and pregnancy services. The HOP caseload declines stemmed from fewer enrollees into the program than previously estimated.

#### Federal Medical Assistance Percentage Update

The Federal Medicaid Assistance Percentage (FMAP) represents the share of state Medicaid benefit costs paid by the federal government. The base FMAP rate is calculated using the three-year average ratio of per-capita personal income in Oregon compared with the nation. FMAP rate modifications will result in fund shifts between state funding resources (i.e., General Fund and Other Funds) and Federal Funds to maintain support of the Oregon Health Plan (OHP).

In September 2025, OHA received adjustments to its base FMAP rates. The table below compares the updated rates against the rates used to calculate OHA's 2025-27 Legislatively Adopted Budget (LAB).

Eligibility Category	2025-27 LAB Rate	Sept. 2025 Updated Rate	Variance
Base FMAP	57.80%	58.07%	0.27%
Regular CHIP (non-ACA)	70.46%	70.65%	0.19%
Title IV-E Foster Care (base)	57.80%	58.07%	0.27%
Expansion Population	90.00%	90.00%	0.00%

Due to the FMAP rate increases, OHA projects additional Federal Funds revenue totaling \$34.7 million, which reduces the General Fund and Other Funds obligation by \$30.2 million and \$4.4 million, respectively.

#### Coordinate Care Organization Budget Challenge

In fall 2025, OHA negotiated 2026 capitation rates with CCO's that resulted in rate increases in excess of 10 percent over the 2025 rates - the LAB assumed CCO capitation rates at an annual growth rate of 3.4 percent. The impact of the 2026 CCO capitation rate increase resulted in a budgetary need of \$155.1 million General Fund and an increase of \$409.5 million Federal Funds expenditure limitation.

To offset the unbudgeted increase, OHA proposed a reduction to the 2025 and 2026 Quality Incentive Pool (QIP) payments to CCOs. The QIP provides financial incentives to CCOs for year-over-year performance improvements based on quality metrics. The proposed reduction changes the 2025 QIP rate from 3.48 percent to 3.0 percent, and the 2026 QIP rate from 4.25 percent to 2.0 percent of CCO capitation rates. As proposed, the QIP reductions result in \$63.1 million General Fund savings, and a Federal Funds decrease of \$147.1 million.

The net impact of the above CCO changes equates to a budgetary need of \$92.0 million General Fund and a Federal Funds expenditure limitation increase of \$262.4 million.

#### Benefits Update Project Budget Challenge

Pursuant to federal requirements, OHA must submit a new benefit package as part of a state plan amendment. Based on the Prioritized List of Health Services developed by the Health Evidence Review Commission – a tool used to determine what services are covered by OHP - OHA expects a significant number of services will be added to the benefit package. Implementation of the new benefits package will begin January 2027. The estimated cost of the new benefits package for the last six months of the 2025-27 biennium equates to a \$10.3 million General Fund need and a \$23.8 million increase in Federal Funds expenditure limitation.

#### Behavioral Rehabilitative Services Compliance Budget Challenge

Per Oregon's Medicaid State Plan and CMS requirements, behavioral rehabilitative services (BRS) must be provided to all eligible youth statewide. To comply with this requirement, statewide expansion is needed to support eligible youth in treatment foster care, sexual abuse specific treatment, and those receiving services through the commercially sexually exploited children program. Expanding BRS services to all eligible youth statewide results in a \$9.3 million General Fund need and a Federal Funds expenditure limitation increase of \$8.6 million.

#### Revenue Adjustments

*Additional Insurers' Assessment Revenue* – Insurers and CCOs pay a two percent assessment rate on the total of health insurance premium equivalents to the Department of Consumer and Business Services (DCBS), which provides funding for OHP and a commercial reinsurance pool. As a result of more Federal Funds available to DCBS to cover reinsurance costs, the department expects to transfer an additional \$24.0 million to OHA during the 2025-27 biennium to support OHP. The additional revenue available to OHA results in a \$24.0 million General Fund savings and an increase in \$24.0 million Other Funds expenditure limitation.

*Tobacco Tax Forecast Update* – To account for the projected increase in Tobacco Tax revenue available to the Medicaid and Behavioral Health Divisions based on the September 2025 economic forecast compared to the June 2025 forecast, the rebalance report includes \$5.3 million General Fund savings and an equivalent increase in Other Funds expenditure limitation.

*Marijuana Revenue Forecast Update* – Pursuant to Measure 110, revenue collected from marijuana sales transfers to the Drug Treatment and Recovery Services Fund (DTRSF) to support behavioral health resource networks, substance use disorder treatment services, and grants for community-based services. As reported in the September 2025 economic forecast, revenue transfers to DTRSF declined by \$6.2 million, reducing the total revenue available to support these services.

### Technical Adjustments

*Intergovernmental Transfer (IGT)* – Moneys received from the Oregon Health & Science University pursuant to the IGT agreement are used to support OHP. Early implementation of IGT agreement changes resulted in revenue originally anticipated to be received in the 2025-27 biennium received in the 2023-25 biennium. To align the 2025-27 expenditure limitation with projected revenue, a \$29.0 million decrease in Other Funds expenditure limitation and a \$144.0 million decrease in Federal Funds expenditure limitation is needed.

*School-Based Health Services* – Expanded Medicaid reimbursement for school-based health services supports all children (ages 0–21) enrolled in Medicaid or CHIP. This expansion allows schools to receive federal funding for a broader range of physical, behavioral, and mental health care services. OHA anticipates a 35 percent increase in school district enrollment and newly eligible students. Since school districts provide the state match, an increase of \$18.7 million Other Funds expenditure limitation and \$30.5 million Federal Funds expenditure limitation is needed.

*Acute Psychiatric Care Facility Expansion* – Other Funds expenditure limitation totaling \$50.0 million was carried forward from the 2023-25 biennium to spend lottery revenue bond proceeds for costs related to acute psychiatric care facility expansion. To align the 2025-27 Other Funds expenditure limitation to remaining funds available, a reduction of \$17.4 million Other Funds expenditure limitation is needed.

*State and Local Fiscal Recovery Fund (SLFRF)* – When originally awarded, the SLFRF provided \$20.0 million for clinical supervision and \$60.0 million for workforce. To align the 2025-27 Other Funds expenditure limitation to remaining funds available, a reduction of \$7.0 million Other Funds expenditure limitation is needed.

*Oregon Youth Authority (OYA) Medicaid Services* – To improve federal claim processing and expand access to services for Medicaid-eligible youth, OYA will transition from BRS and targeted case management to Medicaid Management Information System claims processing beginning January 2026. To facilitate this transition, OHA needs an increase of \$17.5 million Other Funds expenditure limitation and \$24.1 million Federal Funds expenditure limitation.

*Other Technical Adjustments* - The rebalance report also includes various adjustments to transfer expenditure limitation and position authority between agency programs.

Tina Kotek, Governor

December 8, 2025

The Honorable Senator Kate Lieber, Co-Chair  
The Honorable Representative Tawna Sanchez, Co-Chair  
Interim Joint Committee on Ways and Means  
900 Court Street NE, H-178  
Salem, OR 97301

Dear Co-Chairs:

**Nature of Request**

The Oregon Health Authority (OHA) requests receipt of this letter as its Fall 2025 Rebalance Report for the 2025-27 biennium.

**Agency Action**

OHA is projecting a \$141.2 million General Fund savings. Additionally, the agency is projecting a need to increase Other Funds limitation by \$3.1 million and decrease Federal Funds limitation by \$434.0 million, for a Total Funds reduction of \$572.1 million. OHA also reports a need for position authority for 22 positions (14.49 FTE).

Note: This report does not include impacts of House Resolution 1 (H.R. 1), the federal budget reconciliation act signed into law on July 4, 2025. Those are included in a separate letter, prepared jointly by OHA and the Oregon Department of Human Services (ODHS).

Fall 2025 Rebalance changes are based on the following savings, shifts between biennia, challenges, and technical adjustments:

Savings

*Medicaid/CHIP Fall 2025 Caseload Forecast* — Updating the Medicaid Division medical assistance caseloads from the Spring 2025 Caseload Forecast to the Fall 2025 Caseload Forecast results in a \$98.9 million General Fund savings and a \$252.1 million Federal Funds decrease. The decrease in the caseload forecast is due to resequencing of redetermination dates, infrastructure changes related to shifting to a cloud-hosted environment, and the end of the public

Senator Kate Lieber  
Representative Tawna Sanchez  
December 8, 2025

health emergency unwinding. These changes are outside of the impact of H.R. 1.

*Healthier Oregon Program Update* — Updates to the Healthier Oregon program result in a net \$94.9 million General Fund savings and a decrease of \$31.5 million Federal Funds. Updates include updating from the Spring 2025 Caseload Forecast to the Fall 2025 Caseload Forecast, factoring in final risk corridor settlements for 2024, updating Coordinated Care Organizations (CCOs) capitation rates for calendar year 2026, and increasing Federal Medical Assistance Percentages (FMAP) rates for emergency and pregnancy services.

*CCO Quality Incentive Program (QIP) Changes* — The QIP provides financial incentives to CCOs for year-over-year performance improvements on a set of quality metrics. OHA proposes reducing the calendar year 2025 (paid June 2026) quality incentive pool from 3.48% to 3% and reducing calendar year 2026 (paid June 2027) from 4.25% to 2% of CCO capitation rates. These changes result in a \$63.1 million General Fund savings, which partially offsets growth in 2026 CCO capitation rates, described further on.

*Medicaid Federal Match Update* — The Centers for Medicare and Medicaid Services (CMS) finalized the FMAP for Federal Fiscal Year 2025. Updating the rates assumed in the 2025-27 Legislatively Adopted Budget to the finalized rates results in a \$30.2 million General Fund savings.

*Additional Insurers' Assessment Revenue* — The insurers' assessment provides funding for the Oregon Health Plan (OHP) and a commercial reinsurance pool. Insurers and CCOs pay an assessment rate of 2 percent on the total of premium equivalents. The Department of Consumer and Business Services (DCBS) will be able to use \$24.0 million more in Federal Funds than anticipated for reinsurance costs, making that amount of insurers' assessment revenue available for OHP.

*Tobacco Tax Forecast Update* — The Medicaid and Behavioral Health budgets are adjusted for the September 2025 Economic Forecast for projected tobacco tax revenues. The new forecast indicates a \$5.1 million increase in revenue for Medicaid and a \$0.2 million increase in revenue for Behavioral Health, resulting in a total of \$5.3 million General Fund reduction.

### Management Action

*House Bill 2005 Implementation – Civil Commitment and Forensic Services Support* — HB 5525 (2023) allocated \$15.0 million General Fund to expand child and family substance use disorder recovery services. During the Spring 2025 Rebalance, \$13.5 million was shifted from the 2023-25 to the 2025–27 biennium due to delays in contract execution. However, the Behavioral Health Division (BHD) was able to process more contracts than anticipated before June 30, 2025, and used one-time savings from other BHD programs to cover those costs. This resulted in \$10.7 million General Fund savings in the 2025-27 biennium, now available for reinvestment.

OHA is redirecting the savings to support implementation of HB 2005, which substantially revises Oregon's civil commitment laws. The bill expands criteria for involuntary treatment, modifies judicial standards, and establishes new procedures for diversion and restoration. OHA initially submitted an indeterminate fiscal impact statement and committed to assessing resource needs post-session. Of the available savings, \$10.1 million General Fund will support mandated services for individuals placed in Secure Residential Treatment Facilities (SRTFs). These individuals regularly present severe and persistent mental illness (SPMI) and require supervision as well as intensive services such as medication management, therapy (individual, group and recreation), and case management.

The remaining \$0.6 million General Fund will fund 7 positions (4.41 FTE) in BHD's Intensive Services Unit. These positions will provide policy leadership, data tracking, and coordination with courts, hospitals, and community providers. A key focus will be forensic training—specialized education and certification for civil commitment investigators, examiners, and system partners—to ensure consistent application of the new statutory requirements. Additionally, Health Policy & Analytics (HPA) requests approximately \$178,000 General Fund for a research analyst to support new data collection and reporting requirements related to community restoration outcomes statewide.

### Challenges

*CCO Rates Update* — CCO capitation rates for 2026 increased from the LAB 3.4% annual growth rate to a total of over 10%, which results in a General Fund need of \$155.1 million. OHA will partially offset this increase by reducing 2025 and 2026 quality incentive pool payments as described above.

Senator Kate Lieber  
Representative Tawna Sanchez  
December 8, 2025

*Benefits Update Project* — The Prioritized List of Health Services is a tool used by OHP to determine which treatments are covered. Developed by the Health Evidence Review Commission (HERC), the list ranks condition-treatment pairs based on clinical and cost-effectiveness, with an emphasis on prevention and patient education. OHP covers services that fall within the funded portion of the list for a member's reported condition.

The Benefits Update Project is ensuring that OHA will submit a benefit package as part of a state plan amendment, as required by federal guidance. This change will require OHP to begin covering a significant number of services currently in the unfunded region of the list. Implementation of the new benefits package is scheduled to begin in January 2027, impacting the final six months of the 2025–27 biennium. The transition results in a \$10.3 million General Fund need and an increase of \$23.8 million in Federal Funds.

*Behavioral Rehabilitative Services (BRS) Expansion* — Expanding BRS to include Treatment Foster Care (TFC), Sexual Abuse Specific Treatment (SAST), and services for Commercially Sexually Exploited Children (CSEC) results in a \$9.3 million General Fund need and a Federal Funds increase of \$8.6 million. The expansion aligns with Oregon's Medicaid State Plan and CMS expectations by making BRS services available statewide to all eligible OHP members. A retroactive start date of July 2025 is anticipated.

*State Assessments and Enterprise-wide Costs (SAEC)* — OHA requests \$0.2 million General Fund to cover its share of enterprise-wide costs associated with five positions requested by ODHS Shared Services to support implementation of 2025 legislative session bills, and one payroll position to manage increased workload resulting from 509 new positions added across both agencies in the 2025–27 biennium.

*Cost-Neutral or Other/Federal Funded Positions* — OHA requests Other Funds and Federal Funds limitation and position authority for 10 new positions for various programs across the agency that are primarily supported by Other and Federal Funds. These include roles in the Health Care Regulation Quality Improvement Section and Health Licensing Office of the Public Health Division, as well as positions in the Medicaid Division to support School-Based Health Services and the Ground Emergency Medical Transportation state-directed payment program. Additionally, BHD requests four positions funded through

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General Fund savings from reduced reliance on contracted services to support court-ordered compliance efforts in the Mink-Bowman Aid and Assist case.

Expenditure Limitation and Technical Adjustments

*Basic Health Plan Caseload Update* — Updated projections for the federally funded Basic Health Program (BHP) based on the Spring 2025 Caseload Forecast and 2026 capitation rates, result in a savings of \$391.1 million Federal Funds limitation for the 2025–27 biennium.

*Drug Treatment and Recovery Services Fund (DTRSF) Revenue Decrease* — The September 2025 Economic Forecast for DTRSF declined by \$6.2 million, reducing the revenue available to support Behavioral Health Resource Networks, substance use disorder (SUD) treatment services, and grants for community-based services.

*School-Based Health Services (SBHS) Limitation Adjustments* — Oregon is expanding Medicaid reimbursement for health services provided in schools to include all Medicaid- and CHIP-enrolled children ages 0–21, not just those with special education plans. This change allows schools to receive federal funding for a broader range of services, such as physical, behavioral, and mental health care. Implementation began in May 2023 for participating districts, with retroactive funding from July 1, 2024, and new district participation beginning October 1, 2025. While there is no General Fund impact—school districts provide the state match—OHA anticipates a 35% increase in enrollment and newly eligible students, requiring \$18.7 million Other Funds limitation and \$30.5 million Federal Funds limitation.

*OHSU Intergovernmental Transfer (IGT) Adjustment* — OHA collaborates with Oregon Health & Science University (OHSU) on an IGT arrangement to support OHP. Program changes planned for the 2025–27 biennium were implemented in the 2023–25 biennium. The total impact is a \$29.0 million decrease in Other Funds and a \$144.0 million decrease in Federal Funds in the 2025–27 biennium.

*Acute Psychiatric Care Facility Expansion Other Funds Adjustment* — The Behavioral Health 2025–27 Legislatively Adopted Budget includes \$50.0 million Other Funds limitation, carried forward from the 2023–25 biennium, to spend Lottery revenue bond proceeds for costs related to acute psychiatric care facility

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expansion. Of that amount, \$17.4 million was spent in 2023-25 biennium, reducing the Other Funds limitation need for the 2025-27 biennium to \$32.6 million.

*State and Local Fiscal Recovery Fund (SLFRF)* — Originally awarded in the 2021–23 biennium, the SLFRF provided \$20 million for clinical supervision and \$60 million for workforce. Most of these funds were expended in the 2021–23 and 2023–25 biennia, leaving approximately \$3.6 million available for use in 2025–27. To align the budget with the remaining available funding, a \$7.0 million reduction in Other Funds expenditure limitation is needed.

*OYA Medicaid Services – MMIS Transition* — OHA requests \$17.5 million Other Funds and \$24.1 million Federal Funds to support OYA’s transition of Behavioral Rehabilitative Services and Targeted Case Management to MMIS claims processing beginning January 2026. This change will improve federal claiming and expand access to services for Medicaid-eligible youth.

The rebalance also includes various net-zero technical adjustments that transfer budget and positions across agency programs. The following table provides the OHA Rebalance savings, management actions, and challenges by fund type.

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	General Fund (Savings)/Need	Other Funds (Savings)/Need	Federal Funds (Savings)/Need	Total Funds (Savings)/Need
<b>Savings</b>				
Medicaid/CHIP Fall 2025 Caseload Forecast	(\$98.8)	-	(\$252.1)	(\$351.0)
Healthier Oregon Program Update	(\$94.9)	-	(\$31.5)	(\$126.5)
CCO Quality Incentive Program Changes	(\$63.1)	-	(\$147.1)	(\$210.2)
Medicaid Federal Match Update	(\$30.2)	(\$4.4)	\$34.7	-
Additional Insurers' Assessment Revenue	(\$24.0)	\$24.0	-	-
Tobacco Tax Forecast Update	(\$5.3)	\$5.3	-	-
<b>Total Savings</b>	<b>(\$316.3)</b>	<b>\$24.8</b>	<b>(\$396.1)</b>	<b>\$687.6</b>
<b>Challenges</b>				
CCO Rates Update	\$155.1	-	\$409.5	\$564.6
Benefits Update Project	\$10.3	-	\$23.8	\$34.1
Behavioral Rehabilitative Services Expansion	\$9.3	-	\$8.6	\$17.9
Statewide Assessments and Enterprise-wide Costs	\$0.2	<\$0.1	\$0.1	\$0.3
Cost-Neutral or Other/Federal Funded Positions	-	\$1.8	\$0.1	\$0.8
<b>Total Challenges</b>	<b>\$174.9</b>	<b>\$1.8</b>	<b>\$442.1</b>	<b>\$618.8</b>
<b>Management Actions</b>				
HB 2005 Implementation – Civil Commitment and Forensic Services Support	\$0.2	-	\$0.6	\$0.8
<b>Technical Adjustments and Limitation Adjustments</b>				
Basic Health Plan Caseload Update	-	-	(\$391.1)	(\$391.1)
OHSU Intergovernmental Transfer (IGT) Adjustment	-	(\$29.0)	(\$144.0)	(\$173.0)
School-Based Health Services (SBHS) Limitation Adjustments	-	\$18.7	\$30.5)	\$49.22
OYA Medicaid Services – MMIS Transition	-	\$17.5	\$24.1	\$41.6
Acute Psychiatric Care Facility Expansion Other Funds Adjustment	-	(\$17.4)	-	(\$17.4)
State and Local Fiscal Recovery Fund (SLFRF)	-	(\$7.0)	-	(\$7.0)
Drug Treatment and Recovery Services Fund (DTRSF) Revenue Decrease	-	(\$6.2)	-	(\$6.2)
<b>Total Technical &amp; Limitation Adjustments</b>	<b>-</b>	<b>(\$23.5)</b>	<b>(\$480.6)</b>	<b>(\$504.1)</b>
<b>Net OHA Spring 2025 Rebalance</b>	<b>(\$141.2)</b>	<b>\$3.1</b>	<b>(\$434.0)</b>	<b>(\$572.1)</b>

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### Risk Factors, Challenges and Outstanding Issues

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

- H.R. 1 dramatically increases the administrative burden required to operate the Medicaid program while simultaneously reducing federal financial support. It introduces complex new eligibility, reporting, and oversight requirements that will strain existing systems and staff capacity. Compounding this challenge, many critical aspects of the law remain undefined. Key implementation details are still pending federal rulemaking and guidance from CMS, creating substantial uncertainty for the state.
  - OHA awaits funding announcements for the Rural Health Transformation Program, expected late December 2025.
- Costs for Secure Residential Treatment Facilities (SRTF) in the Behavioral Health Division are significantly higher than budgeted. While the management action to redirect savings mitigates the issue, a shortfall for SRTF services remains.
- Due to ongoing implementation of Federal changes, OHA anticipates it will have a negative impact to cost allocations. The extent of the impact will be shared as we have more information.
- The 10.6% increase in 2026 CCO capitation rates significantly raises the base for 2027 rate development. As a result, 2027 rates are likely to exceed current budget assumptions, creating potential General Fund pressure in the last six months of the biennium.
- Based on early estimates, OHA is projecting administrative budget overruns. These pressures are driving by administrative reductions included across the agency in the 2025-27 Legislatively Adopted Budget and increased workload related to federal developments, including implementation of H.R. 1 and impacts from the federal government shutdown.

### **Action Requested**

The Oregon Health Authority (OHA) requests receipt of this letter as its Fall 2025 Rebalance Report for the 2025-27 biennium and consideration for budget adjustments in the 2026 Legislative Session.

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**Legislation Affected**

See Attachment A.

Sincerely,



Sejal Hathi, MD MBA

Director

Enc. Attachment A – Legislation Affected  
Attachment B – Caseload Forecast Changes

EC: Matt Stayner, Legislative Fiscal Office  
Stacey Chase, Department of Administrative Services  
Jason Trombley, Department of Administrative Services  
Kate Nass, Department of Administrative Services  
Amanda Beitel, Legislative Fiscal Office

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**Attachment A**  
**Oregon Health Authority**  
**Fall 2025 Rebalance Actions**  
**Appropriation and Limitation Adjustments**

Division	Oregon Laws 2025/ Section/ Subsection	Fund	Rebalance Adjustment
Central Services			
	ch 587 1(6)	General	(123,230)
	ch 587 2(8)	Other	52,626
	ch 587 5(6)	Federal	17,569
		TOTAL	(53,035)
SAEC			
	ch 587 1(7)	General	1,623,231
	ch 587 2(9)	Other	(14,126)
	ch 587 5(7)	Federal	(232,680)
		TOTAL	1,376,425
Shared Services			
	ch 587 2(10)	Other	572,425
		TOTAL	572,425
Health Policy Analytics			
	ch 587 1(3)	General	(474,900)
	ch 587 2(3)	Other	12,876
	ch 587 5(3)	Federal	(94,367)
		TOTAL	(556,391)
Public Health			
	ch 587 1(4)	General	(1,041,449)
	ch 587 2(5)	Other	822,677
	ch 587 5(4)	Federal	(110,468)
		TOTAL	(329,240)
OSH			
	ch 587 1(5)	General	(1,143,853)
		TOTAL	(1,143,853)
Medicaid			
	ch 587 1(1)	General	(140,617,754)
	ch 587 3(1)	Lottery	(3,519,334)
	ch 587 2(1)	Other	41,408,910
	ch 587 5(1)	Federal	(449,944,239)
		TOTAL	(552,672,417)
Behavioral Health			
	ch 587 1(2)	General	642,439
	ch 587 3(2)	Lottery	3,519,334
	ch 587 2(2)	Other	(39,719,780)
	ch 587 5(2)	Federal	16,412,922
		TOTAL	(19,145,085)