

Oregon Health Authority

Sources of Funding for 2011-2013

I. Forecast Methods and Assumptions

Revenue for the Oregon Health Authority (OHA) comes from multiple funding sources, which are classified as the State General Fund, Other Funds, Lottery Funds and Federal Funds. The following is a summary of the major methodologies used to project revenues for the Department:

1. Expenditures based on estimated Average Daily Populations (ADP) and Cost per Case (CPC) – this method is mainly used for federal entitlement grants.
2. Grant cycles and how the grant cycle falls within the biennium are considered for block grants. Assumptions are made to project the amount of funds that will be received. These assumptions consist of prior grant averaging and anticipated impact of the federal budget.
3. Historical receipt trends – this method is used for other funds sources such as collections of overpayments and fees (unless special projects, additional staff, etc. are expected to increase receipts).

OHA projects revenues based on assumptions that takes into account:

1. Essential packages (phasing in or out of program changes, one time costs, Department of Administrative Services inflation factor, mandated caseload changes, and any needed fund shifts) which adjust the existing base budget to the 2011-13 current service level (CSL) for all legislatively approved programs.
2. Applicable federal funding limits and requirements, including the availability of state funds to meet matching or maintenance of effort (MOE) requirements;
3. Changes in Federal policies that affects Federal revenues available for OHA programs;
4. Expected non-mandated program caseload changes; and, any recent changes in state or federal statutes and regulations that will affect the availability or timing of revenue receipts.

II. Fee Schedules and Proposed Increases

The Department utilizes many fees as funding sources. The majority of these fees are in the OHA Public Health. See enclosed Fee Listing Report for details.

III. Significant Known Federal Revenue Changes / Risk Factors

American Recovery and Reinvestment Act of 2009 (ARRA)

Before the ARRA expires December 31, 2010, it will have provided nearly \$1.4 billion (approximately \$1.1 billion in the 2009-11 biennium and \$0.3 billion in the 2007-09 biennium) in additional federal funds to help Oregon fund an unprecedented increase in caseloads in a number of our Health and Human Services programs. The largest part of this funding comes from the Act's increase in the federal match rate (FMAP) for Medicaid, which directs an additional \$938.1 million to the Oregon Health Plan. The FMAP increase also provides an additional \$11.3 million for our Title IV-E Adoption and Foster Care programs.

Other programs receiving increased funding through the ARRA include:

Supplemental Nutrition SNAP (Food stamps)	\$261 million
Child Care Development Fund	\$ 19.7 million
Vocational Rehabilitation	\$ 6.4 million
Temporary Assistance to Needy Families (TANF)	\$ 83 million
Drinking Water Revolving Fund	\$ 28.5 million
Aging Nutrition Service (congregate and home delivered meals)	\$ 1.2 million
Health Information Technology	\$ 8.6 million
Assorted Public Health competitive grants	\$ 18.9 million
Community Service Employ. for Older Americans	\$350,000

However, the ARRA provides this increased federal funding only through 12/31/2010. ARRA funding will not continue into the 2011-13 biennium. Without an extension of the ARRA Act's federal funding increases, a rapid recovery of Oregon's economy (and tax receipts), and / or a significant reduction in demand for service, Oregon will be faced with looking at benefit reductions and eligibility restriction in a number of these Health and Human Services program areas.

Addictions & Mental Health (AMH), Medical Assistance Programs (MAP) and Public Health (PH):

Managed Care Organizations (MCOs):

1. The DRA expands the Medicaid MCO provider class to include all MCOs and limits states' ability to use MCO provider taxes. This provision has a grandfather clause that will take effect after Oregon's current MCO tax statute sunsets. However, this will require reconsideration for any new MCO provider tax legislation to tax all MCO providers. Any new proposed legislation would need to be inclusive of all MCO providers. Currently these taxes partially pay for the Standard Medicaid population.

Federal Upper Limit:

1. The DRA establishes a new methodology to determine the federal upper limit (FUL) for pharmaceuticals. When available, the FUL will be based on the Average Manufacturer Price (AMP), which is expected to be more representative of actual pharmaceutical costs.

Targeted Case Management (TCM):

1. TCM is used in local programs. These TCM's utilize local funds for the match, so there is no state impact, although the impact may affect county public health departments' ability to continue providing services.

IV. Major Funding Sources

The following identifies the major funding sources for OHA. All references to a grant “Title” are referencing the originating statute in the federal Social Security Act. Grants are listed below in alphabetical order.

Federal Funds

Center for Mental Health Services Block Grant (CMHS)

Federal CMHS funds are granted to states to carry out activities in the Addictions & Mental Health (AMH) plan for adults with serious mental illness and children with serious emotional disturbances. At least 35% of the service funding of each grant must be expended for mental health services for children. Funds for children are contracted in all counties throughout the state.

Currently funds OHA Addictions & Mental Health. Projection is based on grant cycle.

Center for Mental Health Services (CMHS) funded research

CMHS currently is funding Oregon's Office of Mental Health Services Data Infrastructure Grant, which is being used to assist AMH in building data infrastructure to meet uniform data set reporting requirements for the Community Mental Health Block Grant. It is also funding the Statewide Coalitions to Promote Community-Based Care Grant, which helps AMH to select the most appropriate integrated setting for service delivery to persons with psychiatric disabilities. CMHS revenue is 100% federal funds and does not require state match.

Currently funds OHA Addictions & Mental Health.

Maternal and Child Health Grant (Title V)

The goal of the Maternal and Child Health Grant (MCHG) is to enable states to maintain and strengthen their leadership in planning, promoting, coordinating and evaluating health care for pregnant women, mothers, infants, and children and children with special health care needs in providing health services for mothers and children who do not have access to adequate health care. MCHG is a formula grant partially based on the state's population of children in poverty. States must expend \$3 for every \$4 of federal funds.

Currently funds OHA Public Health. Projection method is grant cycle.

Medicare (Title XVIII)

Medicare provides federal funding for a portion of the costs of the certification and survey (inspection) of nursing homes.

Additionally, federal changes to the Medicare program can impact state program funding as well, particularly under Medicaid. The Medicare Modernization Act of 2003 (MMA) created a Medicare prescription drug benefit beginning in January 2006. With the creation of this new federally-funded benefit for all Medicare beneficiaries, states will no longer be eligible to receive federal Medicaid matching funds for prescription drugs provided to Medicare/Medicaid dual eligible beneficiaries. Additionally, the MMA requires states to submit a monthly payment to the federal government to help fund the Medicare Part D benefit. The net impact of these changes on revenues and expenditures will be continually assessed by OHA as more guidance is released by the federal Centers for Medicare and Medicaid Services (CMS).

Medicaid (Title XIX)

Medicaid provides reimbursement to states to provide medical care and medical-related services to low income and other medically needy individuals. This includes financing for:

- Health care services provided under the Oregon Health Plan;
- Private insurance premium assistance through the Office of Private Health Partnerships (OPHP);
- Long-term care in institutional and community-based care settings;
- Some client care provided in state hospitals;
- Residential treatment services to adults and youth;
- Central administration of alcohol and drug programs;
- Medical and non-medical transportation for Medicaid eligible individuals;
- Family planning services for individuals not enrolled in the Oregon Health Plan; and,
- Uncompensated care provided by hospitals serving a high proportion of Medicaid and uninsured individuals.

Medicaid also pays, at the normal Medicaid match rate, the Medicare Part B outpatient benefit premium for Oregon Health Plan (OHP) clients and other Medicare beneficiaries with incomes up to 135% of the Federal Poverty Level (FPL). For clients between 120% and 135% of FPL, the federal match is 100% up to an allotment cap. For dual eligible clients with income at or exceeding 135% FPL there are no Medicaid funds used toward the Part B premium payment. Medicare Part A hospital premiums are also paid for Medicaid clients who have income at or below 100% FPL.

State General Funds or Other Funds must be used to match federal Medicaid dollars for administration and direct service payments. The administration match rate is primarily 50%. A 75% federal fund match is available for skilled professional medical personnel, certification of nursing facilities, and related information systems activities, including the Medicaid Management Information System (MMIS) computer system support and Preadmission Screening and Resident Review (PASRR) activities. Cost of services and supplies of Family Planning is matched

at 90%. The current average federal Title XIX match rate for service payments to providers for the 2011-13 biennium is 62.83%.

Most of these services in Oregon are provided through Medicaid programs that require waivers of federal requirements. The Oregon Health Plan is the largest of these waiver programs under Section 1115 of the SSA, followed by six waivers operated under Section 1915(c) authority. OHA must obtain approval from the federal Centers for Medicare and Medicaid Services (CMS) to make changes to its Medicaid program whether Medicaid state plan services or waiver services. This approval process can be lengthy, sometimes affecting the timing of program changes and the receipt of associated federal revenues.

Medicaid currently funds all OHA divisions. Projection methods for service expenditures include the use of estimated Average Daily Populations (ADP) and Cost per Case (CPC), for Administrative charges, use of time and effort and other measures.

Projects for Assistance in Transition from Homelessness (PATH) Formula Grant

This program provides federal grant funds for case management, treatment, and residential options for individuals who suffer from severe mental illness and/or co-occurring substance abuse disorders, and who are homeless or at imminent risk of becoming homeless in Marion and Multnomah Counties.

Currently funds OHA Addictions & Mental Health. Projection is based on the grant cycle.

Public Health Federal Fund Grants

Public Health receives over 90 categorical federal fund grants targeting specific activities. The variety of programs administered by Public Health using federal funds include: Women, Infant & Children (WIC) food vouchers, Maternal & Child Health, Cancer Prevention, Emerging Infections, Immunization, HIV prevention and care, Water

System Revolving Fund, Beach Safety Assessment and Monitoring, Diabetes Reduction, Newborn Screening, and Disaster Preparedness.

Currently funds OHA Public Health. Public Health projects federal fund grant revenue using applicable federal funding limits and requirements, including the availability of state funds to meet matching or maintenance of effort (MOE) requirements.

Children's Health Insurance Program (Title XXI)

The Children's Health Insurance Program (CHIP) provides federal matching funds to the state for medical care of children through age 18 whose parents earn too much for traditional Medicaid, but do not have insurance. These services are covered through the Oregon Health Plan. CHIP also supports private insurance premiums assistance through the Office of Private Health Partnerships (OPHP). Federal funding for administration and outreach cannot exceed 10% of the total grant. The current average federal Title XXI match rate for the 2009-11 biennium is 74.00%.

Currently funds OHA Medical Assistance Programs. Projection method is expenditures based on estimated Average Daily Populations (ADP) and Cost per Case (CPC).

Substance Abuse Prevention Treatment Grant (SAPT)

The Substance Abuse Prevention Treatment grant (SAPT) provides funds to fund most alcohol and drug programs and some administrative costs. States that receive the funds must meet federal requirements, i.e., 20% of the grant must be spent on prevention, and service levels must be maintained for specified populations, such as women and women with children. The grant is 100% federal funds. One qualifying factor for this grant is the state must expend a minimum of state and local revenues on SAPT-related services to maintain a maintenance of effort requirement.

Currently funds OHA Addictions & Mental Health. Projection is based on grant cycle.

Temporary Assistance for Needy Families (TANF; Title IV-A)

Under the Personal Responsibility and Work Act of 1996 (PRWOA), Oregon is eligible to receive an annual federal block grant under the Temporary Assistance for Needy Families (TANF). In order to qualify for this grant, the State must expend a minimum of state and local revenues on TANF related services to meet federal maintenance of effort requirements (MOE).

Some of these state and federal revenues fund Temporary Assistance to Needy Families (TANF) eligible services. In Oregon, these services are Cash Assistance for single and two parent families, DV Emergency Assistance, and Employment and Training (JOBS) services. OHA and other agencies also use TANF revenue to fund related programs such as child related foster care, prevention services, alcohol and drug treatment services, transportation, and housing assistance for homeless persons. Administrative and direct service costs can also be reimbursed using TANF revenues. Administrative costs are limited to no more than 15% of total TANF expenditures, with certain limited exceptions.

The block grant concept, under which TANF operates, places restraints on service delivery. Federal funds are capped, which means no federal revenue is available for increasing program costs. This limitation on revenue requires Oregon to essentially self-fund any program increases. The DRA authorizes TANF through September 30, 2010. The projection for the 2009-11 biennium is that the federal funding will continue at the current level.

Currently funds OHA Addictions & Mental Health. Projection method is grant cycle.

Enforcing Under Age Drinking Laws Block Grant (EUDL)

EUDL funds provide for prevention programs, which are community-based and support the enforcement of underage drinking laws. Specific services include education of officers and community prevention partnerships. Funding comes from the Office of Juvenile Justice and Delinquency Prevention (OJJDP).

Currently funds OHA Addictions & Mental Health. Projection is based on grant cycle.

Strategic Prevention Framework State Incentive Grant (SPF-SIG)

SPF-SIG is a five year grant (ending in 2015) that will enhance the substance abuse prevention system in Oregon. The funding will be directed toward priority problem behaviors, identified through collaboration with the State Epidemiological Workgroup within the Addictions and Mental Health.

Currently funds OHA Addictions and Mental Health. Projection is based on pre-approved annual grant amounts.

Other Funds

Beer and Wine Revenue

Beer and wine revenue is from the Oregon State Liquor Commission (OLCC) and is based on a set percentage of tax revenues. Revenue is used for all alcohol and drug programs. OLCC provides the estimate of Beer and Wine taxes.

Currently funds OHA Addictions & Mental Health.

Candlish Trust

These funds were donated from the estate of Frances Candlish to the former Mental Health Division in 1973 for “research toward mental illness.” AMH uses interest accrued from this donation to conduct special mental health research projects each biennium.

Currently funds OHA Addictions & Mental Health.

Care of State Wards

Care of State Wards includes the following:

- Trust Recoveries – Other Funds, which are collected from SSA, SSI, and child support payments and used to reimburse the state for the maintenance cost of children in care. Collecting SSI disability payments is 24% of trust recoveries, 53% are from child support payments, and 23% are from SSA death and survivor benefits. Trust Recoveries are used in place of general funds to match Title XIX federal funds for the long-term care program.
- Other Funds are collected from client Social Security income to supplement the General Fund expense of their care.

Currently funds OHA Addictions and Mental Health. Projection method is caseload trends and historical receipt trends.

Drug Rebates

The Omnibus Budget Reconciliation Act of 1990 requires drug manufacturers to provide rebates from drugs purchased by state Medicaid programs. The Medical Assistance Programs projects these rebates using past

expenditure history and expected future trends. Rebates are collected quarterly for the previous quarter's drug claims and based upon rates that are transmitted to the States by Centers for Medicare and Medicaid Services. The State's rebate contractor generates and mails invoices for each manufacturer based on the number of units dispensed for each drug product made by that manufacturer. Prior period adjustment invoices are also generated quarterly for any previous invoices not paid or necessary adjustments based upon dispute resolution. Checks from manufacturers are received by accounting and the rebate contractor receives a copy of the accompanying "Reconciliation of State Invoice" indicating what payments are being made by line item. This information is tracked for future invoicing. If there are disputes on payment, that information is tracked and worked toward resolution by the rebate contractor. The drug rebate revenue level is based on the fee-for-service expenditures forecast and utilizes the historical percentage of revenue compared to expenditures.

Supplemental Rebates – The state joined the Sovereign States Drug Consortium, effective 7/1/2009. This non-profit consortium of state Medicaid programs contract with a third party to negotiate supplemental rebates in exchange for placement on Oregon's Preferred Drug List. It is reported from other state programs that this can result in an additional 3% savings in total funds. The invoicing and dispute resolution is managed separately but in tandem with the OBRA '90 rebate process.

Currently funds OHA Medical Assistance Programs.

Fees/Premiums

Public Health generates other fund revenue from fees for activities in such areas as licensing of facilities including Hospital and Special Inpatient Care Facilities, registration inspection and testing of X-ray equipment and testing and certification of Emergency Medical Technicians.

Mental Health uses licensing fees to finance the cost of certifying private mental health agencies who wish to bill private insurance companies.

MAP uses the OHP premiums to fund the Families and Adults & Couples caseload, taking into account the collection rate.

Currently funds OHA Addictions & Mental Health, Public Health and Medical Assistance Programs. Projection method is historical receipt trends.

Intoxicated Driver Program Fund (IDPF)

Intoxicated Driver Program Fund (IDPF) revenue is generated from state and municipal court fines (ORS 813.030) assessed to persons convicted of driving under the influence (DUII). Revenue is used for treatment programs for offenders.

Currently funds OHA Addictions & Mental Health.

Law Enforcement Medical Assistance Fund (LEMLA)

This program was a pilot project during the 1991-93 biennium. The 1993 Legislature permanently approved continuing the program commencing with the 1993-95 biennium. The program is funded with Other Funds revenue from Oregon county law enforcement agencies paid to the Department. The Department makes payments to medical providers for services to persons injured as a result of efforts by law enforcement to apprehend them. Additional fees on bails and fines handed down by the courts generate these other funds. A small portion of this fund is used to administer the program.

Currently funds OHA Medical Assistance Programs. Projections method is based on estimates from Department of Revenue and Justice.

Provider Tax

During the 2003 Oregon Legislative session, HB 2747 was passed which imposes taxes on four types of businesses that provide health services to many of Oregon's Medicaid clients: hospitals and Medicaid managed health care plans (MCO). DHS was given oversight of the taxes. Effective September 30, 2009, the Hospital Tax and the Medicaid MCO Tax ended. In HB 2116, the Oregon Legislature re-established the hospital tax and instituted a new Health Insurers Tax to support the Oregon Health Plan. The Insurers Tax is one percent (1%) of health premiums. HB 2116 specifies that certain Medicaid MCO types are subject to the Insurers Tax.

Hospital – Under HB 2116, the Director of OHA sets the Hospital Tax rate. The tax is imposed on both inpatient and outpatient net revenues from Diagnosis-Related Group (DRG) hospitals. Currently, the tax rate is set at 2.80 %. The hospital tax provides approximately \$45M per quarter, with a \$130M federal match, for a total of \$175M per quarter. The hospital tax pays for enhanced payments to hospitals and funds 50,000-60,000 clients in the Standard OHP program.

MCO – The MCO provider tax was used to pay administrative costs of the OHP, approximately 24,000 clients in the Standard OHP, and approximately 30 staff members through September 30, 2009. The tax rate was 5.5 %. Included in HB 2116, all health insurers, specific Medicaid Managed Care Organizations, are assessed a 1 % tax through the bill's sunset date of September 30, 2013. The funds are deposited into the Health System fund to assist in covering the cost of the Healthy Kids program.

Insurers Tax – HB 2116 created the Health Care for All Oregon Children program and established a 1 % assessment on health insurers. The effective date of the bill is October 1, 2009. This assessment is collected by the Department of Consumer and Business Services and transferred to the Health System fund. 2011-13 estimated transfer to the Health System fund is \$129.4 million. The funds are used to cover the cost of the Healthy Kids program.

Public Health Other Funds Sources

Public Health has over 150 sources of other fund revenue. These revenue sources include negotiated agreements to provide services, lab fees, inspection fees, certification fees, grant awards, client co-pays and other charges. The largest other fund revenue source supporting Public Health programs is the non-limited Women, Infants, and Children (WIC) Food Rebate. The large number of other fund revenues reflects the variety of programs and services administered by Public Health. A sampling of this diversity includes: Cavity Prevention, Tobacco Prevention, Juvenile Violence Prevention, Medical Marijuana Certification, Environmental Laboratory Accreditation, Coordinated School Health, Breast Cancer Screening, Radiation Control, Drinking Water Operator Certification, Drug Lab Clean-Up, Health Records and Statistics, Newborn Screening, and Cross Connection and Backflow Inspection. See enclosed Fee Listing Report for details.

Currently funds OHA Public Health. Public Health projects other fund revenue sources using historic data, contract agreements, anticipated levels of service and changes to service charges (fees).

Salem Rehabilitation Facility

In 1999-01, the wood products and benchwork products programs managed by the facility were transferred to the Oregon State Hospital. Revenues from the sale of wood products and bench work products support this program.

Tobacco Settlement

The Department of Justice administers the settlement funds paid to the state by tobacco manufacturers. Although not dedicated to medical assistance programs, the Department received a portion of the settlement for health care programs.

Tobacco settlement revenues are currently unsettled. The Master Settlement Agreement (MSA) allows the tobacco companies to withhold funds if they can show that states have not properly enforced the escrow provision of the

agreement. The companies have two of the three provisions satisfied for withholding funds. The ultimate decision is unknown at this time.

Currently funds OHA Public Health, Addictions & Mental Health and Medical Assistance Programs.

Tobacco Tax

Tobacco tax revenues approved in 1996 Ballot Measure 44 were appropriated to the Department to fund additional program delivery positions performing eligibility determination for the Oregon Health Plan (OHP). Tobacco tax revenue is projected to increase in 2011-13. The Office of Economic Analysis forecasts Tobacco Tax revenue utilizing a 12-month moving average consumption level developed from the Department of Revenue's Tax Distribution Record data. Price effects and per capita consumption impacts are applied, as well as the forecast for the 18-year-old and older population. Tobacco tax revenue is projected to increase over the next two biennia.

Currently funds OHA Medical Assistance Programs and Public Health.

Third Party Recoveries

The Third Party Recovery Program recovers medical portions of collections from insurance companies, providers, and clients, and cash assistance by filing liens on personal injury settlements when clients are involved in accidents. The State's share of the recovery becomes Other Fund revenue used in the Medical Assistance Programs (MAP) to offset Medicaid expenditures.

The Office of Payment Accuracy and Recovery (OPAR) includes five units that recover Medicaid related funds. Those offices are the Overpayment Recovery Unit, Estates Administration Unit, Medical Payment Recovery Unit, Personal Injury Liens Unit and the Provider Audits Unit.

A number of factors will impact recoveries in the upcoming two biennia, including OPAR's efforts to increase cost avoidance efforts through provider education and an emphasis on up front payment accuracy and coordination of benefits. Increased cost avoidance results in fewer dollars being paid out by the program, and directly impacts, therefore, the amounts of recovery to be expected.

Currently funds OHA Medical Assistance Programs.

Transfers from other OHA Divisions, other State Agencies, Educational Services Districts and other Local Public Entities

Transfers from other OHA divisions, other state agencies, such as Board of Nursing, Department of Education and Oregon Youth Authority, and funds received from Educational Services Districts and other local public entities, such as Council of Governments, are used to fund the state share of health services for Medicaid children and families.

Currently funds all OHA divisions. Projection method is transferring entities latest estimates.

Lottery Funds

Legislature provides the authority to allot funds to OHA. Statute (ORS 461.549) reserves 1% of the Lottery proceeds for OHA. Lottery funds may only be used for problem gambling treatment and prevention services.

Currently funds OHA Addictions and Mental Health. Projections are based on amounts provided by the Department of Administrative Services, Office of Economic Analysis.