



Oregon

Theodore R. Kulongoski, Governor

Department of Human Services

Office of the Director

500 Summer St. NE, E-15

Salem, OR 97301-1097

(503) 947-5110

Fax: (503) 378-2897

TTY: (503) 947-5080

June 2, 2008

The Honorable Peter Courtney, Co-Chair
The Honorable Jeff Merkley, Co-Chair
State Emergency Board
900 Court St, NE
H-178 State Capitol
Salem, OR 97301-4048



RE: Policy Note Directive for Oregon State Hospital (OSH) Actual Revenue and Costs Compared to Budget – Policy Note HB 5031

Dear Co-Chairpersons:

NATURE OF REPORT

The Oregon Department of Human Services (DHS) Addictions and Mental Health Division (AMH) was directed by a Policy Note within HB 5031 from the 2007 Legislative Session to report on the actual revenue and costs compared to budgeted amounts to coincide with, but be in addition to, the department's budget rebalance.

AGENCY ACTION

In the attached report the department is presenting information on the status of the OSH Operating Budget for 2007-09. The report describes new challenges for the hospital since the January 2008 report. This report does not include any revenues or expenditures related to the construction of new state mental health facilities.

"Assisting People to Become Independent, Healthy and Safe"
An Equal Opportunity Employer

The Honorable Peter Courtney, Co-Chair
The Honorable Jeff Merkley, Co-Chair
June 2, 2008
Page 2 of 2

ACTION REQUESTED

The department requests that the State Emergency Board acknowledge receipt of this report.

LEGISLATION AFFECTED

None.

Sincerely,



Clyde Saiki,
Deputy Director of Operations

cc: Sheila Baker, Legislative Fiscal Office
John Britton, Legislative Fiscal Office
Eric Moore, BAM, Department of Administrative Services
Bob Nikkel, Department of Human Services
John Swanson, Department of Human Services

DEPARTMENT OF HUMAN SERVICES
REPORT TO THE STATE EMERGENCY BOARD
JUNE 2008

OREGON STATE HOSPITAL REVENUE AND COSTS

INTRODUCTION

The purpose of this report is to provide to the June 2008 Emergency Board, a brief update on the January 2008 report to the Interim Ways and Means Committee as directed by Policy Note in HB 5031 on Oregon State Hospital (OSH) requiring analysis of actual revenue and operating costs compared to budgeted amounts. This update is in conjunction with the Department of Human Services financial update.

As noted in the original report OSH ended the 2005-07 biennium slightly over the Total Fund budget by 0.19 percent. That variance was related to the use of overtime driven by census and patient needs. The variance was offset by an increase in Medicare Part D revenue that was greater than expected.

CURRENT 2007-09 BUDGET STATUS

As in the January report, revenue collections are tracking as expected overall, with Other Fund revenues slightly ahead at this point in the biennium.

Medicare Part D revenues are the primary driver here. The contracts have been renewed for the first time in the biennium. There will be one additional renewal next January.

The management actions supporting financial accountability detailed in the January 2008 report continue. The reviews of actual expenditures and adjusted projections compared to the budget occur monthly with Addictions and Mental Health Division, Budget Planning and Analysis, and OSH leadership. The Director holds quarterly financial reviews with the Assistant Directors at which the OSH budget status is examined.

The May 2008 review of OSH budget status, based on actual expenditures through March 2008, indicates that compared to the Legislatively Approved Budget, OSH expenditures are projected to be up to \$10.6 million above the budget. This projected deficit is largely resulting from \$6.8 million that is related to the unfunded 2007-09 Salary Package. The operating deficit may be reduced by an additional \$1.0 million that is projected in Medicare Part D revenues that exceed original estimates. This leaves approximately \$2.8 million to be managed. These expenditures are driven by greater overtime and shift/differential costs. An additional measure that could be taken to reduce this operating challenge would be to release the \$1.2 million held in the Special Purpose Appropriation for the costs to implement the new Involuntary Medication Hearings program, that are not expected to be required, for general OSH operating costs. This would reduce the net budget management challenge to approximately \$1.6 million.

The overtime costs at OSH continue to be driven by the need to increase the delivery of active treatment under the Continuous Improvement Plan. The hospital is balancing the need to manage within a budget where the major cost drivers are staff and contract nurse and physician salaries against the need to deliver physician supervised and nurse directed active psychiatric treatment.

CHALLENGES

DHS is reporting separately on the implementation of the Continuous Improvement Plan for quality treatment at OSH. This plan was revised based on the December 2007 Report from the U. S. Department of Justice outlining their findings in the November 2006 review of OSH.

An additional challenge is posed by the recent reviews of OSH Geropsychiatric Program by the Centers for Medicare and Medicaid (CMS). This program is the only program at OSH that is certified to bill Medicaid for state hospital services for individuals over age 65, who are receiving active psychiatric treatment. If this program is decertified the hospital will not be able to bill Medicaid. If the program remains certified, but certain patients are deemed ineligible for reimbursement for active psychiatric treatment, the loss of Medicaid revenue is estimated to be \$1.1 million. If the program were decertified, the loss of Medicaid and certain Medicare revenues is estimated to be \$6.3 million. Decertification would also likely lead to re-determination of eligibility for disproportionate share federal funds with an upper risk limit of approximately \$16 million. Disproportionate Share Funding (DSH) is available

provided certification is in place and facility meets Medicaid Percentage of population requirements, and decertification of the OSH program may require consideration of the Blue Mountain Recovery Center patient mix in establishing eligibility for DSH funding.

OSH leadership is preparing a plan to change the configuration of the program in order to retain certification on a portion of the capacity and concentrate the patients deemed able to benefit from active psychiatric treatment and thus eligible for Medicaid reimbursement on one ward. If the program certification was immediately reduced from four wards to one active treatment ward, the estimated loss of Medicaid and certain Medicare revenues is estimated to be \$5.0 million. This would require the state to reassess the allocation of DSH adjustments and may require an amendment to the state plan.

The concentration of eligible individuals has the advantage of allowing the deployment of sufficient staff to deliver active psychiatric services to patients who will benefit from them. OSH leadership is conferring with CMS and anticipates a resurvey team in June 2008. In addition, AMH management is meeting with SPD program teams to consider solutions for moving those patients leaving active treatment to custodial care in residential settings that may retain some level of Medicaid/Medicare eligibility.

SUMMARY

The department's Budget Planning and Analysis leadership and staff, the AMH leadership and OSH leadership continue to monitor the results of increased financial accountability for OSH expenditures and work with the challenges described in this report. The department expects OSH to manage the budget challenges and operate within the approved budget for the remainder of the biennium.