

# OREGON ALLIANCE OF CHILDREN'S PROGRAMS

## Children's Intensive Mental Health Treatment Services System

### *Impact Statement*

#### **External Environment**

Statewide implementation of the Children's System Change Initiative created opportunities for more children to be served in family and community settings, and to achieve better outcomes for them. Providers -- in partnership with their communities, and with the Department of Human Services -- have made unprecedented commitments to implementing this new system, because of the improved outcomes for children that it could produce. We have succeeded in achieving those outcomes because of that commitment, and the extraordinary financial investment made by the private sector.

Despite the nationally-recognized achievements of this new system, providers are no longer able to fund it. Implementing it and achieving the outcomes has, at the same time, created dangerous financial situations for providers throughout Oregon. While the state sought to increase these community-based service options, it did not attempt to make any financial investment in this significant transformation. The system changes resulted in a significant reduction in residential capacity along with other devastating impacts that have reverberated throughout an already resource-starved industry, and has caused profound concern for Oregonians who care about our most vulnerable citizens.

We have an immense challenge before us. With nearly 110,000 young people in Oregon in need of treatment for mental health issues, the inability of providers to financially sustain their work means a catastrophic gap in care will emerge for our community's most vulnerable children. Not funding this system will result in lost services, more children dropping out of school, more young people becoming involved with the juvenile justice system, and more families watching their children suffer with treatable mental health challenges.

Oregon is currently preparing to move to the next step in advancing this system: WrapAround Oregon. But without funding the Children's Change Initiative, the very foundation of WrapAround Oregon may crumble.

#### **Program Reductions: Community-Based Care**

While many point to the reduction of children's residential mental health services, it is important to understand that closures and reduction of community-based services are also occurring—the very services that the State sought to expand under the Children's Change Initiative. Providers delivering community-based services -- at the core of the Initiative and WrapAround, its next step -- have been challenged to one degree or another because of persistently inadequate funding:

- Trillium Family Services - Closed outpatient clinics in Portland and Corvallis and all community-based services in Central Oregon.
- Catholic Community Services of Southwest Washington - Once the largest provider of intensive community treatment services in Multnomah County, it is now is no longer providing services to Oregon's children and families because of inadequate reimbursement rates.
- ChristieCare – Closed Lincoln County and Roseburg publicly funded community-based mental health services operated in partnership with Options Counseling Inc.
- Cascadia - Remains in financial jeopardy and has reduced programs considerably (reducing revenue from \$55 million in FY 07/08 to \$30 million this year).

## **Program Reductions: Residential Care**

As part of the new system, residential service utilization has been cut in half, from an average of 20,000 patient days per quarter to 10,000 patient days per quarter. This has resulted in several unanticipated impacts on providers:

- Trillium Family Services - Closed residential operations in Central Oregon.
- Edgefield - No longer provides facility based psychiatric residential services.
- Albertina Kerr Centers – Retains its 24-bed short-term sub-acute crisis psychiatric residential service but no longer provides longer-term psychiatric residential services (a reduction of 15 beds).
- Jasper Mountain - Used to serve 15 to 20 Oregon children in psychiatric residential per year now focuses on out of state children because of better reimbursement rates.
- Pendleton Academy – Had significant adverse financial impacts that contributed to quality of care concerns. The CEO has been terminated, the state has closed admissions until further notice, and the very future of the program is at stake.

While some may point to lack of business acumen in certain cases, a dominant theme across all programs is the *impact of chronic and severe under-funding*.

## **Contributing Factors**

There are many factors contributing to this erosion of the sector:

- Absence of funding for the initiative from the outset.
- Reimbursement for residential treatment is 40% below current unit costs; the average of residential and the other treatment elements (excluding outpatient) is 19%.
- Key employee wages falling 26% below median wages (and benefits falling behind as much as 50% when compared to public jobs) from the 2007 Oregon Wage Information report
- Funding of support staff, facility costs, supplies, and administrative support personnel is 48% less than that of our colleagues in Washington State.

The system cannot be sustained, even in the short term, without an infusion of state funding. Clearly, the nonprofit community and our supporters have been keeping the system afloat in large part through private fundraising activities.

The Oregon Alliance of Children’s Programs, a nonprofit provider membership association, reports that its 40 member organizations raise more than \$30 million each year, dollars that support the very missions of these organizations. Unfortunately, nonprofits have been put in the position of enabling the system to continue by under-paying employees, under-capitalizing infrastructure, and increasing debt. These compensations are obviously unsustainable.

In order to get a clear picture of the actual costs for delivering these services, the Department of Human Services and the Mental Health Organizations partnered with the OACP to have a detailed cost study conducted by a consulting firm specializing in health care. The study is an important companion piece to this impact statement because it provides the target and addresses the impacts of under-funding. The cost study is available upon request.

## Financial Snapshot

The following graphs convey the capital position of sector providers prior to implementation of the Children’s Change Initiative as compared to their recent capital positions.

<b>Sector-Wide Capital Position Comparison</b>				
--all numbers are represented in millions--				
	2004	2008	Change	Percentage
Cash and investments	14,043,520	7,932,711	(6,110,809)	-44%
Accounts receivable	7,339,691	10,639,243	3,299,552	45%
Net fixed assets	24,137,388	21,689,142	(2,448,246)	-10%
Other assets	2,993,105	3,479,900	486,795	16%
Accounts payable	4,542,941	4,205,264	(337,677)	-7%
Revolving bank debt	1,962,624	1,085,800	(876,824)	-45%
Mortgage debt	5,406,737	6,275,296	868,559	16%
Other current liabilities	1,386,945	2,991,314	1,604,369	116%
Total net assets	35,214,457	29,183,322	(6,031,135)	-17%
Unrestricted net assets	22,468,983	13,619,855	(8,849,128)	-39%
Temporary/Restricted net assets	12,745,474	15,563,467	2,817,993	22%

Contributing data: Trillium Family Services, ChristieCare, Jasper Mountain, Morrison Child and Family Services, Pendleton Academy, and Southern Oregon Adolescent and Child Study Center

This chart illustrates a major decrease in unrestricted net assets (39%), a draining of cash and investments (44%), an increase in mortgage debt (16%), and a significant and ever increasing amount of accounts receivable (45%). Temporary restricted net assets have increased (22%) as providers have used philanthropy to fill the gap in order to support necessary programs.

## Financial Position Changes with Funding

For a counter-point example of another sector provider, the chart below outlines the comparative capital position of Albertina Kerr, which is much stronger:

<b>Albertina Kerr Capital Position Comparison</b>				
<b>--all numbers are in millions--</b>				
	2004	2008	Change	Percentage
Total net assets	12,027,642	14,107,642	2,080,000	17%
Other current liabilities	1,251,037	823,221	-427,816	-34%
Unrestricted net assets	7,221,599	7,726,981	505,382	7%
Mortgage debt	758,349	1,793,978	1,035,629	137%
Revolving bank debt	0	0	0	0%
Accounts payable	2,098,851	1,795,138	-303,713	-14%
Other assets	488,105	592,829	104,724	21%
Net fixed assets	6,741,923	8,315,182	1,573,259	23%
Accounts receivable	1,976,556	2,132,572	156,016	8%
Cash and investments	4,414,068	4,407,515	-6,553	0%

Albertina Kerr Center's relatively healthy financial position is attributable to decisions they made to discontinue certain children's mental health services and other services with large deficits and strengthen other services that operate closer to breakeven or with a positive margin. It is also somewhat attributable to the fact that the majority of their contracts are with the State or County Developmental Disabilities (DD) system, one which is "carved out" from the Children's Change Initiative. Contracts provided under this arrangement are fee-for-service, but somewhat different in nature from children's mental health fee-for-service arrangements in that adults with developmental disabilities are often in life-long placement, which make revenues from these services more stable and predictable. The DD contract structure was also funded by the 2005 Oregon Legislature to more closely align reimbursement rates with the actual cost of care. Approximately \$60 million in combined State general fund and federal dollars was directed to Oregon DD providers to increase wage rates and to assist with increasing energy, employee health insurance, and supply costs. The divergence between mental health providers' and Albertina Kerr's financial position delineates a disturbing problem with the funding aspect of the Children's Change Initiative.

## **Solutions**

The question is: How do providers of children's mental health services maintain viability under such uncertain conditions? The solution includes some work that the Alliance members have already begun, particularly in the last year:

- Aligning our missions with best practices in terms of business and services
- Strategic staffing and capacity increases in key areas
- Family-centered care and improved customer service
- Measuring, monitoring and managing key performance indicators
- Marketing to commercial insurance, other states and private sources such as families while reducing dependence on government contracts and other unsustainable contracts
- Using private fundraising to strategically invest in our business
- Building brand awareness and telling our story
- Developing an effective legislative campaign to support adequate funding of the system
- Build on the WrapAround Oregon initiative with a sustainable base of services
- Utilizing the recent Mental Health Cost Study as a key communication tool and metric for establishing future rates for service costs

As a nonprofit, mission-driven organization, OACP has a responsibility to work with government leadership to ensure Oregon's most vulnerable populations are served. Our mission continues to include working with the public sector in "taking care of those who cannot take care of themselves." That said, our work and approach with government must change. Our providers must have discipline when determining the types of services and contract conditions we accept as well as the restraint to refuse contracts that do not fit our business models.

## **Future Organizational Change**

Organizational cultural change will be essential. No longer do we exist in an environment where contracts and revenues are, in essence, guaranteed. Most services will operate in a competitive fee-for-service environment where revenue is generated by whoever offers the best services for the most reasonable rate.

In order to create sustainable business models, nonprofit providers must:

- Convey to the consumers of our services (children and families), and payors (commercial and public) that we are the highest quality provider and that we offer the most value
- Master the business discipline required of any company
- Know our strengths and passionately manage the quality of our service
- Understand our costs and manage them appropriately
- Develop and adhere to productivity standards for each service and effectively match clients to the right services for the right amount of time
- Measure effectiveness and capture our revenue
- Ensure that our organizational structures support our businesses and are nimble in a changing environment

## **Call to Action**

Oregon must make a financial investment in the children's mental health system. The funding request from the Department of Human Services was based on the data and recommendations of the cost study. This investment will sustain our current services and outcomes for children, and will build the base we need to move forward with the WrapAround Oregon initiative.

Therefore, we must obtain the commitment of the Governor and the Legislature to meet the \$38 million funding request from the Department of Human Services to support the children's mental health system.