

# Oregon Children's Mental Health Services Cost Study

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## Background

In 2004 the Governor's Mental Health Task Force issued a Report to the Governor and Legislature<sup>1</sup> that described ten *key Systemic Problems facing the public mental health system in Oregon*, a number of which have been particularly impactful for children and youth needing mental health services.

- The system is significantly under-funded
- The failure to plan for, invest in, and maintain adequate community resources causes gridlock in the entire public mental health system
- The emphasis on acute care and incarceration means that the public mental health system does not consistently emphasize early intervention and prevention, especially with children
- The mental health system, like most other parts of health care, does not take advantage of modern information systems

During and following the Task Force's study period, mental health services funded through the Oregon Health Plan have seen three rounds of funding cuts – across the board cuts for the 2003-2005 and 2005-2007 periods,<sup>2</sup> and 2007-2009 funding that included cuts in five mental health plans and increases in four. This has translated into fewer Medicaid dollars for both children and adults.

During this same period, the children's mental health system has experienced a major system redesign through the Children's System Change Initiative, new evidence-based program requirements created by Senate Bill 267, and the beginning rollout of the state's Early Childhood and Oregon's Children's Wraparound Initiatives. Even though each of these initiatives has the potential to improve the system, with insufficient funding, these changes have made it more difficult to stabilize a delivery system under stress.

In 2007 a coalition of Children's Mental Health stakeholders including Children's Provider Agencies, the OHP Mental Health Organizations (MHOs), and the Oregon Division of Addictions and Mental Health (AMH) engaged MCPP Healthcare Consulting to complete a comprehensive Cost Study of the Oregon Children's Mental Health System in order to analyze the financial impact of funding cuts and new initiatives on the system.

This study, funded by the Maybelle Clark Macdonald Fund, analyzed the system's key services, including:

- ✓ Psychiatric Residential Treatment Services
- ✓ Youth Subacute Services
- ✓ Psychiatric Day Treatment Services
- ✓ Community-Based Outpatient Treatment

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<sup>1</sup> Report to The Governor and Legislature, A Blueprint for Action, Governor's Mental Health Task Force, September 2004.

<sup>2</sup> The Oregon Health Plan maintains a website of capitation rates since 2000 at [http://www.oregon.gov/DHS/healthplan/data\\_pubs/rates-costs/caprate-percapita.shtml](http://www.oregon.gov/DHS/healthplan/data_pubs/rates-costs/caprate-percapita.shtml).

As the stakeholder group worked with MCPP to define and oversee the project, two phases were organized to achieve the following objectives.

- Determine the Unit Costs of the key Children's Mental Health Service Areas
- Assess the Gap between Unit Costs and Current Reimbursement Rates
- Analyze the Impact that Funding Pressures in the Oregon Mental Health System may have had on Children's Mental Health Services Unit Costs

This report describes the approach MCPP used to complete the project and provides a set of findings and recommendations. A companion document contains two Appendices that provide detailed information on the Cost Study.

## **Approach**

MCPP completed several activities during the two project phases, drawing on a number of Oregon State and national resources.

### **Phase 1: Unit Cost Study and Gap Analysis**

MCPP consultants completed the following work:

- Cost Study Preparation: Prepared a set of data requests, cost study templates, and training materials; provided training and ongoing support to participating provider agencies as they completed their cost studies.
- Data Collection: Collected the data packets, reviewed each for reasonableness, completed follow-up to ensure accurate data submissions, and compiled the information into a Cost Study database.
- Data Analysis: Completed a detailed data analysis to arrive at a set of Unit Costs and Reimbursement Rates for each key service.

### **Phase 2: Impact Analysis Oregon Funding on Unit Cost**

Concurrent to the Phase 1 efforts, MCPP consultants completed the following activities to project the impact that Oregon Mental Health System funding pressures may have had on Children's Mental Health Services Unit Costs.

- Background Research: Obtained the current version of the *Oregon Wage Information* (OWI) report, Oregon County salary and benefits data, cost data from other states, and other relevant background data.
- Wage Study: Completed a wage study, comparing data from the participating agencies, the 2007 Oregon Wage Information Report (OWI), and Oregon County salary information.
- Staffing Mix Analysis: Analyzed the current provider agency clinician type staffing mix for each service area in order to evaluate the adequacy of each clinician type.
- Benefits Study: Completed a benefits study to compare current provider agency benefit rates with state and national benchmarks.
- Other Direct and Indirect Cost Study: Completed an analysis to compare other direct expenses, non-direct staffing, administrative, and overhead costs for each service area with relevant benchmarks.

- Scenario Development: Developed a set of Unit Cost Models with stakeholders from participating agencies, MHOs and AMH to evaluate the impact of historical funding levels.
- Study Report: Compiled the results of Phases 1 and 2 into this report.

## Study Findings

This section contains five major findings. The first addresses Phase 1 of the study, comparing current revenue levels with current expenses. Findings 2 – 4 draw on Phase 2 research, identifying key areas where the current Children’s Mental Health system is underfunded – clinician salaries, benefits, and other support, administrative, and overhead expenses. Finding 5 calculates the dollar impact of beginning to address these shortfalls.

### Finding 1: Current Rates do not Cover Current Costs

Current Reimbursement Rates are 3% to 40% below Current Unit Costs, depending on the program area and payor. This finding, which was based on a detailed analysis of 25 programs in 17 non-profit agencies, is consistent with stakeholder feedback that *programs operate at a loss and require external fundraising*. Table 1 below breaks this information out by five program areas. This table does not include outpatient revenue and expense because of the myriad outpatient reimbursement methods.

<b>Oregon Children's Mental Health Services Cost Study</b>					
<b>Summary of Cost Study Results</b>					
	Psych Res Treatment	Assess & Evaluation	Stabilize & Transition	Subacute	Day Treatment
<b>A. Current Unit Costs</b>					
Provider Salaries-Contract Fees/	\$174.17	\$178.99	\$216.83	\$280.23	\$62.45
Provider Benefits-Taxes/Day	\$41.40	\$42.39	\$53.03	\$66.83	\$15.99
Total Clinician Costs/Day	\$215.57	\$221.39	\$269.85	\$347.06	\$78.44
Other Salaries/Day	\$60.92	\$56.23	\$80.15	\$58.04	\$34.48
Other Benefits/Day	\$14.48	\$13.32	\$19.60	\$13.84	\$8.83
Facility-Related/Day	\$34.58	\$28.83	\$24.74	\$38.99	\$20.88
Other Program Exp/Day	\$19.04	\$16.54	\$20.81	\$37.20	\$8.35
Other Expense/Day	\$36.25	\$28.38	\$29.43	\$37.28	\$11.27
Total Other/Day	\$165.27	\$143.30	\$174.74	\$185.34	\$83.81
Total Cost/Day	\$380.84	\$364.69	\$444.59	\$532.40	\$162.26
<b>B. Revenue/Expense</b>					
Daily Rate (50th Percentile)	\$272.65	\$301.38	\$397.82	\$450.00	\$153.50
Total Cost/Day	\$380.84	\$364.69	\$444.59	\$532.40	\$162.26
Net Gain (Loss)/Day	-\$108.19	-\$63.31	-\$46.77	-\$82.40	-\$8.76
Net Gain (Loss)/Day %	<b>-40%</b>	<b>-21%</b>	<b>-12%</b>	<b>-18%</b>	<b>-6%</b>
Daily Rate (75th Percentile)	\$285.00	\$320.43	\$397.82	\$518.00	\$153.50
Total Cost/Day	\$380.84	\$364.69	\$444.59	\$532.40	\$162.26
Net Gain (Loss)/Day	-\$95.84	-\$44.26	-\$46.77	-\$14.40	-\$8.76
Net Gain (Loss)/Day %	<b>-34%</b>	<b>-14%</b>	<b>-12%</b>	<b>-3%</b>	<b>-6%</b>

Table 1: Summary of Cost Study Results

The revenue in Table 1 is based on an examination of more than 80 reimbursement rates from government payors including Oregon State and the Medicaid Mental Health Organization (MHOs). In order to compare provider costs with payment rates, MCPP used the midpoint (50<sup>th</sup> percentile) and 75<sup>th</sup> percentile rate for each service area.

Note that three categories of residential services were examined – Psychiatric Residential Treatment (164 beds in the study), Assessment and Evaluation (64 beds), and Stabilization and Transition Services (6 beds).

Table 2 projects the statewide shortfall for the service areas listed in Table 1. This calculation is based on the average number of beds/slots funded with state and federal dollars. **The gap between existing rates and current costs is \$8.3 million per year** based on 550 state/MHO purchased residential, psychiatric day treatment, and subacute beds/slots. Note that the computed gap does not include Outpatient Services due to the complexity of collecting and computing service units and payment rates.

	Psych Res Treatment*	Assess & Evaluation	Subacute	Day Treatment	Total
<b>Current Revenue and Unit Costs</b>					
<b>Revenue/Expense</b>					
Daily Rate (50th Percentile)	\$272.65	\$301.38	\$450.00	\$153.50	
Total Cost per Day	\$380.84	\$364.69	\$532.40	\$162.26	
Net Gain (Loss)/Day	-\$108.19	-\$63.31	-\$82.40	-\$8.76	
State-Funded Slots	146	39	19	346	550
State-Funded Payments	\$14,529,519	\$4,290,144	\$3,120,750	\$19,385,515	\$41,325,928
State-Funded Costs	\$20,295,127	\$5,191,315	\$3,692,226	\$20,491,201	\$49,669,868
State Funded Annual Shortfall	-\$5,765,608	-\$901,170	-\$571,476	-\$1,105,686	-\$8,343,941
Note: Psychiatric Residential Treatment includes Stabilization and Transition beds.					

**Table 2: Statewide Funding Shortfall**

## **Finding 2: Agency Salaries for Key Positions continue to be Below Market**

There were seven positions that provide direct service for the service areas in the study. Average salaries for these seven positions were 26% below median wages from the 2007 Oregon Wage Information report, a document that contains statewide and regional salary information on approximately 600 occupations. Wages from the study were also 26% below the median wages in seven Oregon Counties that MCPP studied.

This gap has increased from the 23.3% deficit documented in a 2005 MCPP study, the *Benchmark Wage Study for the Oregon Alliance for Child Advocacy Member Agencies*. The largest gaps in the current study were found with Bachelor-Level Counselors (BA), Direct Care Workers (<BA), and Masters-Level Clinicians. These positions comprise 93% of the direct care staff in the study. Table 3 shows the hourly wages and percentage shortfalls. Table 4 translates these figures into salary dollars for the 770 FTEs in the study.

**Oregon Children's Mental Health Services Cost Study  
Hourly Salary Analysis**

Job Title	Agency Number of FTEs	% of Workforce	Agency Hourly Pay Average	OWI Hourly Pay 50th %tile	County Hourly Pay 50th %tile	Shortfall with OWI	Shortfall with County
MH Counselor: BA	394.22	51%	\$12.21	\$20.08	\$19.47	-39%	-37%
Direct Care Worker < BA	93.75	12%	\$10.12	\$13.70	\$16.62	-26%	-39%
Master's Level	232.61	30%	\$16.88	\$22.66	\$23.43	-26%	-28%
RN	25.91	3%	\$28.07	\$31.74	\$25.77	-12%	9%
Psychiatrist	11.62	2%	\$116.27	\$75.04	\$68.43	55%	70%
Psychologist	7.53	1%	\$25.67	\$28.85	\$29.01	-11%	-12%
PMH Nurse Practitioner	4.49	1%	\$52.07	\$37.79	\$35.19	38%	48%
<b>Total</b>	<b>770.13</b>	<b>100%</b>	<b>\$15.84</b>	<b>\$21.49</b>	<b>\$21.45</b>	<b>-26%</b>	<b>-26%</b>

**Table 3: Hourly Salary Analysis**

**Oregon Children's Mental Health Services Cost Study  
Annualized Salary Analysis**

Job Title	Agency Number of FTEs	Agency Total Wages	Total Wages @ OWI 50th Percentile	Total Wages @ County 50th Percentile
MH Counselor: BA	394.22	\$10,014,253	\$16,465,150	\$15,961,210
Direct Care Worker < BA	93.75	\$1,973,861	\$2,670,525	\$3,240,900
Master's Level	232.61	\$8,166,882	\$10,963,561	\$11,336,109
RN	25.91	\$1,512,620	\$1,710,557	\$1,388,817
Psychiatrist	11.62	\$2,810,992	\$1,814,155	\$1,654,429
Psychologist	7.53	\$402,074	\$451,860	\$454,366
PMH Nurse Practitioner	4.49	\$486,321	\$352,928	\$328,646
<b>Total</b>	<b>770.13</b>	<b>\$25,367,001</b>	<b>\$34,428,737</b>	<b>\$34,364,478</b>
<i>Shortfalls</i>			-26%	-26%

**Table 4: Annualized Salary Analysis**

**Finding 3: Agency Employee Benefits are Below National and Oregon Government Averages**

An analysis of U.S. Bureau of Labor Statistics data shows that employee benefits of the children's agencies in the study are *below* national averages when compared with the entire U.S. Civilian Workforce (2.6% shortfall) and the U.S. Government Workforce (23.2% shortfall).

MCPP also collected Oregon County benefits data from two counties whose benefit rates were 52% and 53% of salaries, which is substantially higher than the national average for government workers (33.1%). This is consistent with a 2006 study commissioned by the Oregon Business Council,<sup>3</sup> which stated:

The average cost of healthcare for public employees in Oregon is one of the highest in the nation... Oregon's Public Employee Retirement System is currently one of the most costly state retirement systems in the U.S.

<sup>3</sup> Analysis of Oregon Public Employee Compensation, Commissioned by the Oregon Business Council, 2006.

In that report, benefits for Oregon public employee Psychologist and Registered Nurse were 54% of salaries for Tier 1 and Tier 2 employees and 38% for newer employees who entered the system under the OPSRP program.

Regardless of which employee benefits benchmark is used, adding employee benefits into the analysis increases the gap between agency compensation and the market. The following table shows the benefits gap, ranging from 2.6% to 49.2%, followed by a computation of the overall impact when the salary and benefit gaps are combined. Note that we have rounded the Oregon County estimate down to 50%.

<b>Benefits/Taxes % of Salaries</b>				
	Current Agency Rate	US Civilian Workforce Average	US Government Workforce Average	Oregon County Estimate
Benefit Rate	25.4%	26.1%	33.1%	50.0%
Shortfall		-2.6%	-23.2%	-49.2%
	Current Agency Totals	Totals at OWI Rates	Totals at OWI Rates	Totals at OWI Rates
Salary Computation (for 770 FTEs in Study)	\$25,367,001	\$34,428,737	\$34,428,737	\$34,428,737
Shortfall		-26%	-26%	-26%
Benefit Costs	\$6,440,465	\$8,977,386	\$11,383,107	\$17,214,368
Total Compensation	\$31,807,467	\$43,406,123	\$45,811,844	\$51,643,105
Shortfall		-27%	-31%	-38%

**Table 5: Benefits Analysis**

**Finding 4: Support, Administrative, and Overhead Expenses are Significantly Lower than Comparative Data from Other States**

When health and social services are underfunded, maintaining clinician salaries and staffing levels are generally given priority over other expenses such as support staff, facility costs, supplies, and administrative support. This study examined these “other costs” by using the metric, *Other Expenses per Clinical FTE*, which consisted of all costs except Clinician Salaries and Benefits.

In order to analyze the adequacy of these expenditures, MCPP examined *Other Expenses per Clinical FTE* at mental health centers in Washington State, using data from a Milliman USA 2005 Unit Cost Study, and an analysis of 990 IRS Tax Returns for Child Social Service Agencies in seven states that have well-funded mental health systems (Connecticut, New Hampshire, New York, Hawaii, Minnesota, Pennsylvania, and Maryland).

As Table 6 illustrates, the Oregon agencies spent \$35,799 per full time equivalent clinician for Other Expenses. This is substantially less than mental health centers in Washington State where Other Expenses were \$52,804 per clinical FTE. A larger gap was found with the seven states study where the average Other Expense figure was

\$62,638. For a program with 21 FTE clinicians (the median size of the Oregon Psychiatric Residential Treatment programs), this translates into a shortfall of \$350,000 to \$550,000 per year. This is a substantial and significant shortfall.

<b>Oregon Children's Mental Health Services Cost Study</b>			
<b>Other Expense per Clinical FTE</b>			
Benchmark	Other Expense per FTE Clinician	Difference \$	Difference %
A. Average from Participating Agencies	\$35,799		
B. Average from 92 Centers in the Washington State Mental Health System (source: Milliman USA 2005 Unit Cost Study)	\$52,804	\$17,005	48%
C. Child Social Service Agency Average from 7 Well-Funded States (source: IRS Form 990 Analysis)	\$62,638	\$26,839	75%

**Table 6: Other Expense Analysis**

### **Finding 5: Narrowing the Cost Gaps Further Increases Funding Shortfalls**

MCPH examined the impact of the funding pressures on the Children’s Mental Health System by developing a set of scenarios that project how Unit Cost would change if the gaps noted in Findings 2 – 4 were reduced. These scenarios examined six key variables: Salary Levels, % of Employees with Benefits, Benefit Rates, Provider Hours per Day, Non-Clinician Expenses (Other Expense per Clinician FTE), and Productivity.

- **Scenario 1: Status Quo with Minor Adjustments**, as suggested by the title, makes only minor adjustments to the variables.
- **Scenario 2: Market Adjustments A**, begins to move towards market benchmarks for the six variables.
- **Scenario 3: Market Adjustments B**, builds on Scenario 2 and projects further movement towards market.

The assumptions for each scenario are described in Table 7 below. Changes are minor to modest; for example: none of the scenarios are above the 50<sup>th</sup> percentile for salaries; and the employee benefits rate of 29.5% in Scenario 3 remains substantially lower than current Oregon County benefit levels.

Following Table 7, Tables 8-11 compute the financial impact of the three scenarios.

	Scenario 1: Status Quo	Scenario 2: Mkt Adjust A	Scenario 3: Mkt Adjust B
1. Salary Levels	Salaries were kept at the <u>status quo</u> for each position unless they were below the 25% percentile of the OWI or Oregon County figures.	Salaries were raised to the <u>lower of the 50th percentile of the OWI or County figures</u> . This represents the lower version of bringing wages up to market.	Salaries were raised to the <u>higher of the 50th percentile of the OWI or County figures</u> . This represents the second version of bringing wages up to market.
2. % of Employee Clinicians with Benefits	Not all employees are offered benefits. This scenario moves partway (25%) towards providing benefits to all staff.	This scenario moves further (50%) towards providing benefits to all staff.	This scenario moves further (75%) towards providing benefits to all staff.
3. Benefit Rates	<u>No change</u> was made in this variable.	The rate was adjusted slightly upwards from 25.4% to <u>27.1%</u> to match an adjusted U.S. Civilian Workforce.	The rate was adjusted upwards from 25.4% to <u>29.5%</u> to match an adjusted U.S. Government Workforce.
4. Provider Hours per Day	<u>No change</u> was made in this variable.	Adjustments were made to correct Study Outliers. This increased clinician hours per day <u>between 1% and 7%</u> , which resulted in a corresponding cost per day increase.	The same adjustments from Scenario 2 were made to correct Study Outliers.
5. Other Expense per Clinical FTE	<u>No change</u> was made in this variable.	A minor correction was made to the 65th Percentile of the study, from \$35,799 per Clinical FTE to \$37,343 per Clinical FTE, a <u>4.3% increase</u> .	The rate was adjusted up Washington State's 50th Percentile, from \$35,799 per Clinical FTE to \$45,141 per Clinical FTE, a <u>26.1% increase</u> .
6. Outpatient Productivity	Increased Productivity was assumed, which had the effect of <u>lowering</u> Unit Cost.	The same Outpatient Productivity increase in Scenario 1 was used in Scenario 2.	The <u>status quo</u> Outpatient Productivity was assumed in this scenario.

**Table 7: Scenario Variables**

**Scenario 1: Status Quo with Minor Adjustments:** These minor changes increase Unit Costs between 3% and 13%, depending on the Service Area and increase the funding gap accordingly. This scenario increases the funding gap to over \$100 per day for the Residential and Subacute Programs. Note that gaps are not listed for Outpatient Services due to the great variation in how Outpatient Programs are reimbursed throughout the State.

	Psych Res Treatment	Assess & Evaluation	Stabilize & Transition	Subacute	Day Treatment	Outpatient
<b>Scenario 1: Status Quo-Minor Adjustments Modeling Results</b>						
Current Unit Cost	\$380.84	\$364.69	\$444.59	\$532.40	\$162.26	\$108.87
Scenario 1 Unit Cost	<u>\$430.32</u>	<u>\$413.12</u>	<u>\$504.39</u>	<u>\$587.10</u>	<u>\$178.65</u>	<u>\$111.72</u>
Dollar Change	\$49.48	\$48.43	\$59.80	\$54.70	\$16.40	\$2.85
Percent Changes	13%	13%	13%	10%	10%	3%
<b>Revenue/Expense</b>						
Daily Rate (50th Percentile)	\$272.65	\$301.38	\$397.82	\$450.00	\$153.50	N/A
Scenario 1 Unit Cost	<u>\$430.32</u>	<u>\$413.12</u>	<u>\$504.39</u>	<u>\$587.10</u>	<u>\$178.65</u>	N/A
Net Gain (Loss)/Day	-\$157.67	-\$111.74	-\$106.57	-\$137.10	-\$25.15	N/A
Net Gain (Loss)/Day %	-58%	-37%	-27%	-30%	-16%	N/A

**Table 8: Scenario 1 Analysis**

**Scenario 2: Market Adjustments A:** This scenario, which begins to move towards market rates for the six variables, increases Unit Costs between 12% and 42%, depending on the Service Area and increases the funding gap above \$200 per day for Residential and Subacute Programs.

	Psych Res Treatment	Assess & Evaluation	Stabilize & Transition	Subacute	Day Treatment	Outpatient
<b>Scenario 2: Market Adjustment A Modeling Results</b>						
Current Unit Cost	\$380.84	\$364.69	\$444.59	\$532.40	\$162.26	\$108.87
Scenario 2 Unit Cost	\$508.81	\$516.62	\$588.95	\$651.73	\$199.58	\$122.29
Dollar Change	\$127.97	\$151.93	\$144.36	\$119.33	\$37.33	\$13.42
Percent Changes	34%	42%	32%	22%	23%	12%
<b>Revenue/Expense</b>						
Daily Rate (50th Percentile)	\$272.65	\$301.38	\$397.82	\$450.00	\$153.50	N/A
Scenario 2 Unit Cost	\$508.81	\$516.62	\$588.95	\$651.73	\$199.58	N/A
Net Gain (Loss)/Day	-\$236.16	-\$215.24	-\$191.13	-\$201.73	-\$46.08	N/A
Net Gain (Loss)/Day %	-87%	-71%	-48%	-45%	-30%	N/A

**Table 9: Scenario 2 Analysis**

**Scenario 3: Market Adjustments B,** which assumes further movement towards market benchmarks, increases Unit Costs between 27% and 57%. Note that even though the expense change assumptions for Scenario 3 in Table 7 are relatively modest, funding gaps approach \$300 per day for Residential and Subacute Programs and surpasses \$50 per day for Psychiatric Day Treatment.

	Psych Res Treatment	Assess & Evaluation	Stabilize & Transition	Subacute	Day Treatment	Outpatient
<b>Scenario 3: Market Adjustment B Modeling Results</b>						
Current Unit Cost	\$380.84	\$364.69	\$444.59	\$532.40	\$162.26	\$108.87
Scenario 3 Unit Cost	\$568.55	\$574.04	\$658.57	\$724.08	\$205.40	\$142.78
Dollar Change	\$187.71	\$209.35	\$213.98	\$191.67	\$43.15	\$33.91
Percent Changes	49%	57%	48%	36%	27%	31%
<b>Revenue/Expense</b>						
Daily Rate (50th Percentile)	\$272.65	\$301.38	\$397.82	\$450.00	\$153.50	N/A
Scenario 3 Unit Cost	\$568.55	\$574.04	\$658.57	\$724.08	\$205.40	N/A
Net Gain (Loss)/Day	-\$295.90	-\$272.66	-\$260.75	-\$274.08	-\$51.90	N/A
Net Gain (Loss)/Day %	-109%	-90%	-66%	-61%	-34%	N/A

**Table 10: Scenario 3 Analysis**

**Funding Gaps:** Table 11 computes *funding gaps of \$14 to \$28 million per year*, depending on the scenario. Note that the computed gaps exclude Outpatient Services due to the complexity of collecting and computing service units and payment rates. The 3% to 31% gaps between current and projected Outpatient Costs from Tables 8 – 10 would substantially increase the overall Children’s Mental Health funding shortfall.

	Psych Res Treatment*	Assess & Evaluation	Subacute	Day Treatment	Total
<b>Scenario 1: Status Quo-Minor Adjustments Modeling Results</b>					
<b>Revenue/Expense</b>					
Daily Rate (50th Percentile)	\$272.65	\$301.38	\$450.00	\$153.50	
Scenario 1 Unit Cost	\$430.32	\$413.12	\$587.10	\$178.65	
Net Gain (Loss)/Day	-\$157.67	-\$111.74	-\$137.10	-\$25.15	
State-Funded Slots	146	39	19	346	550
State-Funded Payments	\$14,529,519	\$4,290,144	\$3,120,750	\$19,385,515	\$41,325,928
State-Funded Costs	\$22,931,856	\$5,880,776	\$4,071,558	\$22,562,001	\$55,446,191
State Funded Annual Shortfall	-\$8,402,337	-\$1,590,632	-\$950,808	-\$3,176,486	<b>-\$14,120,263</b>
<b>Scenario 2: Market Adjustment A Modeling Results</b>					
<b>Revenue/Expense</b>					
Daily Rate (50th Percentile)	\$272.65	\$301.38	\$450.00	\$153.50	
Scenario 2 Unit Cost	\$508.81	\$516.62	\$651.73	\$199.58	
Net Gain (Loss)/Day	-\$236.16	-\$215.24	-\$201.73	-\$46.08	
State-Funded Slots	146	39	19	346	550
State-Funded Payments	\$14,529,519	\$4,290,144	\$3,120,750	\$19,385,515	\$41,325,928
State-Funded Costs	\$27,114,563	\$7,354,080	\$4,519,763	\$25,205,291	\$64,193,697
State Funded Annual Shortfall	-\$12,585,044	-\$3,063,936	-\$1,399,013	-\$5,819,776	<b>-\$22,867,769</b>
<b>Scenario 3: Market Adjustment B Modeling Results</b>					
<b>Revenue/Expense</b>					
Daily Rate (50th Percentile)	\$272.65	\$301.38	\$450.00	\$153.50	
Scenario 3 Unit Cost	\$568.55	\$574.04	\$724.08	\$205.40	
Net Gain (Loss)/Day	-\$295.90	-\$272.66	-\$274.08	-\$51.90	
State-Funded Slots	146	39	19	346	550
State-Funded Payments	\$14,529,519	\$4,290,144	\$3,120,750	\$19,385,515	\$41,325,928
State-Funded Costs	\$30,297,983	\$8,171,422	\$5,021,469	\$25,940,407	\$69,431,281
State Funded Annual Shortfall	-\$15,768,465	-\$3,881,278	-\$1,900,719	-\$6,554,892	<b>-\$28,105,353</b>

**Table 11: Projected Funding Gap**

## Recommendations

This report presents two important recommendations that MCPP considers baseline requirements for promoting the stability of children's mental health services and long term viability of the programs examined in this study.

### **Recommendation 1: Develop a Multi-Year Plan to Close Existing Funding Gaps in Children's Mental Health Services**

This study demonstrates that Children's Residential, Subacute, Psychiatric Day Treatment, and Outpatient services are not adequately funded, and that the shortfalls in the *other expense* category is a less well known and particularly serious problem.

Because of the size of the shortfalls, closing the funding gaps between current reimbursement rates and adequate funding levels should be addressed through a multi-year plan.

Scenario 1 (*Status Quo with Minor Adjustments*) should be considered an absolute floor for the first year's funding changes. Scenario 2 (*Market Adjustment A*) is a preferred first year adjustment because it begins to address salary, benefits, and other expense shortfalls.

Future years' funding increases should be built into the planning process described in Recommendation 2 below, so that service mix and service volumes can be analyzed in conjunction with service costs.

### **Recommendation 2: Implement a Population-Based Planning Process for Children's Mental Health Services**

The funding shortfalls in this report were many years in the making and have a set of underlying causes. Of greatest significance is the *absence of a population-based planning process* to help guide Oregon's child mental health services. This type of planning effort, which is common in general healthcare, includes periodic evaluation of the following key questions:

- What is the size of the target population?
- How many youth should receive service?
- How much of what type of service ought to be provided?
- What is the cost of providing the services?
- What cost offsets can be achieved?
- What revenues are available?
- What funding gaps exist?

This approach supports a thoughtful evaluation of clinical need, combined with financial feasibility testing in order to identify clinical and financial gaps, prioritize the gaps and develop short, medium, and long range efforts to address quality, access, utilization, and cost shortfalls. Oregon State Departments and Divisions that oversee and fund children's mental health services should implement this type of planning process on a regular basis, preferably coordinated with other Divisions and Departments. These efforts should include a three-year cycle of cost studies in order to evaluate and update gaps that may exist between reimbursement rates and *reasonable and necessary* costs.