



Oregon

Theodore R. Kulongoski, Governor

Department of Human Services

Office of the Director

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June 4, 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: Cascadia Behavioral Healthcare Update

Dear Co-Chairpersons:

NATURE OF THE REPORT

The letter provides information on the current status of the Department of Human Services (DHS) and Multnomah County's work and agreement to address the fiscal uncertainty of Cascadia Behavioral Healthcare (Cascadia).

BACKGROUND

Cascadia operates in Multnomah, Clackamas, Lane, Marion and Washington counties. Multnomah County's Mental Health and Addictions Services Division contracts with Cascadia to provide nearly 80% of its adult mental health care, paying them approximately \$17 million annually through 11 contracts.

In early April, Cascadia (through its attorney) notified Multnomah County and DHS that Cascadia was requesting a loan from the Governor's office and the State Treasurer's office to address its cash flow problems. Although the loan was ultimately denied, the County and DHS

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immediately became involved to better understand the history and scope of the problem. The DHS director, CFO, and Addictions and Mental Health (AMH) leadership met with Cascadia's CEO, new CFO, and a board member. At the meeting, Cascadia presented its fiscal situation and its plan to get back on a firmer financial foundation. The plan, however, was too late.

On April 21, Cascadia announced publicly that its CEO had resigned. At the same time, Multnomah County hired a forensic auditor to review Cascadia's fiscal situation.

On April 30, Cascadia's bank called Cascadia's \$2 million operating loan and seized \$1.6 million in Cascadia's funds. Because Cascadia's funds were frozen the day before payday, on May 1 the County and DHS advanced payment for services rendered in April to enable Cascadia to meet payroll.

On May 2, DHS examined the initial reports of the forensic auditor and reconciled them with county and DHS payment records and revenue forecasts. Based on this analysis, the DHS CFO concluded that Cascadia could operate through the end of June if the County and DHS replaced the banks' operating loan. Although there clearly was risk involved in loaning funds to Cascadia, the cost was far preferable to the human and financial costs of finding alternative service providers for some of Oregon's most needy citizens at the last minute.

After negotiating the appropriate legal agreements, DHS loaned \$1 million to Multnomah County. The County added \$1.5 million of its own funds, creating a total loan pool of \$2.5 million. The loan was made under the following conditions:

- Interest of 4% per year
- Loan due on demand and no later than June 30, 2009.
- Loan is secured by all Cascadia's assets.
- The County and DHS shall monitor Cascadia's cash flow needs through use of a common tool.

- Cascadia will, in good faith, cooperate with the County and DHS in developing a plan for the continuation of services to Cascadia clients, including services that might be provided in Cascadia's absence.

As of June 3, Cascadia's fiscal position is slightly better than it was in early May. A total of \$1.7 million has been advanced under the loan agreement. Cascadia's late payments to many of its providers have been reduced significantly, especially to other non-profits that have subcontracts with Cascadia.

AGENCY ACTION

DHS, led by Jim Scherzinger from the Director's Office and Madeline Olson of the Addictions and Mental Health Division, have been working closely with Multnomah County leadership to develop a plan which ensures the ongoing provision of high quality mental health services.

As of June 3, Cascadia, the County, and DHS are very close to an agreement. Cascadia has offered a variety of options for downsizing their organization to stabilize their finances. Decisions are being informed by in-depth financial and program analysis and input from a wide variety of experts and community advocates. The emphasis is on maintaining ongoing services for clients and ensuring a viable business model. Services will continue, but service providers and locations may change.

Specific criteria and considerations for making changes to the current provision of mental health services include:

- Continuity of services for mental health consumers
- No single provider will provide more than 40% of the services in the adult mental health system
- Maintaining staff to client ratios no greater than 50:1
- Evaluating providers' areas of expertise
- Geographic locations of services – identifying providers with a presence in each community
- Keeping excellent clinical staff.

State and county fiscal and program officials are committed to diligent monitoring to ensure that the system of care is fully supported and we continue to work with Multnomah County leadership to protect the interests of the taxpayers and consumers who rely on these services.

As we move forward, we will look at strengthening our contracts to allow for more in-depth monitoring of provider finances and increased technical assistance for business management, billing, and program development.

Cascadia's financial constraints have demanded a rapid response. We are building a flexible transition plan, allowing for the potential stresses of this accelerated timeframe. We will act in cooperation with Multnomah County to prevent disruption of the highest priority services.

DHS has also worked with two other counties that have significant Cascadia operations. Washington County has announced that they will move all Cascadia services to other providers when existing contracts expire on June 30. Marion County is in active discussions with Cascadia about the future of their operations. Clackamas and Lane counties have very small contracts with Cascadia and are currently considering options.

DHS is also working closely with the Region X Office of the Center for Medicare and Medicaid Services (CMS) to assure the provision of services to and the protection of the rights of people covered by Medicaid and served by the Mental Health Organizations and counties that contract with Cascadia. The department provided a contingency plan that is being revised to CMS specifications and provides updates to CMS staff in a weekly conference call.

ACTION REQUESTED

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

The Honorable Peter Courtney, Co-Chair
The Honorable Jeff Merkley, Co-Chair
June 4, 2008
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LEGISLATION AFFECTED

None.

Sincerely,

A handwritten signature in black ink, appearing to read "JS", with a long horizontal flourish extending to the right.

Jim Scherzinger,
Deputy Director of Finance

cc: Sheila Baker, Legislative Fiscal Office
John Britton, Legislative Fiscal Office
Eric Moore, BAM, Department of Administrative Services
Jim Scherzinger, DHS, Deputy Director of Finance
Madeline Olson, DHS, Deputy Assistant Director AMH