



Oregon

Theodore R. Kulongoski, Governor

Department of Human Services

Office of the Director

500 Summer St. NE, E-15

Salem, OR 97301

503-947-5110

Fax: 503-378-2897

TTY: 503-947-5080

September 25, 2008

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



Re: Cascadia Behavioral Healthcare Update

Dear Co-Chairpersons:

NATURE OF THE REPORT

The report provides updated information on Department of Human Services (DHS) and county efforts to address the fiscal uncertainty of Cascadia Behavioral Healthcare (Cascadia). As described in our June report to the Emergency Board, last April Cascadia's bank called its operating loan and seized Cascadia's funds. To avoid irreparable harm to mental health clients, Multnomah County and the state replaced the operating loan and began a process of downsizing Cascadia to develop alternative providers and to reduce the impact of any subsequent financial failure of Cascadia.

UPDATE SINCE THE JUNE EMERGENCY BOARD REPORT

Washington County

Cascadia programs in Washington County were transferred to new providers along with essential clinical staff and clients on June 30, 2008. It was a smooth transition for the clients and staff. There has been no increase in critical incidents or in hospital use for acute care episodes.



Multnomah County

Our prior report described a Memorandum of Understanding (MOU) between the state, Multnomah County and Cascadia. The MOU was signed on June 16, 2008.

Based on the MOU, an action and accountability plan has been developed to carry out the tasks required to transfer a minimum of two of Cascadia's five Multnomah County clinics to other providers.

The Gresham clinic was transferred to Lifeworks on August 18, 2008. The transition is progressing on schedule.

Initially the county and Cascadia agreed to transfer the Garlington Plaza Clinic. However, after discussing the idea with the community and considering their concerns, it was agreed to leave Garlington with Cascadia. Instead, the county and Cascadia agreed to transfer the Downtown program in its entirety to Central City Concerns. As of this writing Central City Concerns is in the process of due diligence. The results of their review are expected by the end of August.

In addition to the two clinics, a number of smaller programs have or are in the process of being transferred to other providers. The largest are the Schools Uniting Neighborhood (SUN) programs. These transitions are proceeding smoothly.

Cascadia also operates over 700 housing units on 51 properties. Two separate analysis of this portfolio have concluded that the operation is financially viable, although reserves are a bit low. The greatest threat to housing was the financial fragility of the rest of Cascadia's operations. Cascadia had four housing projects under development at the time the MOU was signed. These have all been transferred to other organizations. In addition, one homeless facility (Bridgeview) is being transferred. County staff are now working with Cascadia to develop more detailed fiscal monitoring of each project and to identify the fiscal sustainability of the projects. As noted in the financial section, Cascadia is also rebuilding reserves where appropriate.

Marion County

Cascadia's operations in Marion County, considered by themselves, are fiscally viable. Marion County would like to transfer Cascadia's programs to a new provider. However, this work is complicated because Cascadia owns the property, there is significant debt on the property and there are not readily available alternative organizations to manage the operations.

The county is working with Cascadia's management to develop a lease agreement to allow the county to operate the facility in the event Cascadia as whole cannot sustain itself. In addition, the county is working on creating the needed infrastructure and working with Cascadia to transfer the property and operations to a new entity when it is available.

Finances

When the county and state originally agreed to replace the withdrawn bank loan in early May, the financial projections showed that the loan would enable Cascadia to meet payroll and continue providing service to clients at least through the end of June.

Since then, the finances have improved:

- The counties and Cascadia have successfully transferred some operations to other organizations and Cascadia continues to operate the remaining services. Current cash projections indicate Cascadia has enough to meet payroll at least through September 15, 2008.
- Cascadia has generated about \$1 million more cash than projected through higher revenue and lower costs than forecast
- Unpaid bills outstanding over 30 days have been reduced to about \$275,000 by the end of July (down from about \$950,000 at the end of April). Most significantly, "pass-through" amounts owed to nonprofit organizations have been brought up to date.
- Cascadia has begun a process to improve housing reserves.

Despite these improvements, Cascadia still faces significant challenges. The higher revenue came largely from one-time sources, such as cleaning up problems with billings that had been denied in the past. The outstanding

loan amount is \$2.3 million, very close to the maximum authorized amount of \$2.5 million.

Although significant progress has been made in reducing costs, the fundamental remaining issue is to improve efficiency – being sure that clinical staff is providing enough properly recorded billable services to eligible clients to make its operations financially viable.

Cascadia worked with experts in health care financing and hired a new chief financial officer (CFO) following the resignation of the CFO hired in March 2008. The new CFO is experienced in health care financing and is building on the work done by the previous CFO. In addition to the daily monitoring of cash flow, financial management reports comparing revenue and expenses for each clinic are being prepared as part of the increased fiscal accountability Cascadia leadership has instituted.

Cascadia leadership is developing a business plan to demonstrate financial viability beyond the end of September. The draft plan was provided to the Cascadia Board of Directors the first week of August and to the county and state on August 7, 2008. The county engaged an outside expert to review the plan. As of this writing, his report is expected by mid-September. This plan is currently under review.

A new board chair with expertise in health care management was elected in late June 2008. The board membership is being strengthened and the board has increased its oversight of Cascadia management including financial management.

At the beginning of July, the county initiated twice-weekly monitoring meetings to assure that county staff and Cascadia leadership are carrying out the agreements in the MOU. These are action-oriented meetings that hold individuals accountable for making the agreed upon changes and to update the group on the financial status of Cascadia. The group includes advocates and consumers of mental health services.

Contingency Planning

Beginning July 25, 2008, the county and state began contingency planning with Cascadia in the event they are not able to regain financial viability. The purpose is to identify alternative providers for all of the work done by Cascadia staff.

Federal Issues

The Region X Office of the Center for Medicare and Medicaid Services (CMS) has been closely following Cascadia's financial issues. CMS's primary concern is that Medicaid-covered residents of Multnomah County are able to access services in a timely manner and their rights are protected as the issues with Cascadia are dealt with.

Cascadia is the largest provider of Medicaid-covered services in Multnomah County. Cascadia receives most of its payments for these services on a fee-for-service basis through Verity. Verity is run by Multnomah County and serves as the managed care organization for mental health services in the Oregon Health Plan. Thus CMS has been very interested in DHS's monitoring of Verity's ability to provide access and protect clients' rights.

As part of managing the Oregon Health Plan services for mental health, DHS monitors 10 federal regulations with 30 subcomponents for each managed Mental Health Organization (MHO). These regulations are primarily focused on client rights; including timely access to services, choice of providers, filing of grievances, and the managed care organization's work to assure quality and appropriateness of services, and to establish and maintain a network of providers with reasonable geographic distribution to assure ease of access. During the last monitoring period, Verity, the Multnomah County MHO, met or exceeded these contract requirements.

DHS sent a contingency plan to CMS on June 18, 2008 and provides updates to CMS staff in a twice-monthly conference call.

AGENCY ACTION

DHS, led by Jim Scherzinger from the Director's Office and Madeline Olson of the Addictions and Mental Health Division, continue to work closely with Multnomah County leadership in monitoring the fiscal status of Cascadia and the progress on the actions to transfer clinics and assure continued services to clients.

DHS confers at least every two weeks 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. DHS receives weekly reports of hospital use patterns and any critical incidences from Multnomah County, Verity, as part of monitoring access to services. At this point, the state has not seen an upward trend in these indicators.

DHS is working with Marion County to help develop a plan for transferring the Cascadia programs to a new provider in the county.

Staff prepared a plan to increase the state's monitoring of the financial health of the largest providers in the system or those that are the sole provider in a geographic area. This plan builds on the work that has been done to monitor the managed care plans and expands it to the counties. The analytical work, determination of appropriate criteria for risk analysis and the development of new contract language will be done over the next several months. This work will be completed and the 09-11 Financial Assistance Agreement with the counties and relevant direct contracts will include the new language.

ACTION REQUESTED

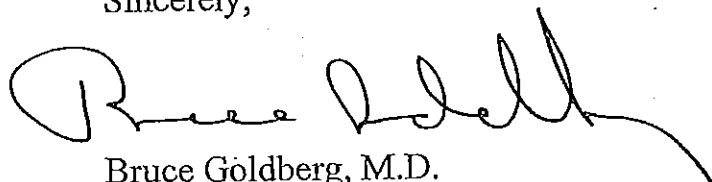
The department requests that the Emergency Board acknowledge receipt of this report.

The Honorable Peter Courtney, Co-Chair
The Honorable Jeff Merkley, Co-Chair
September 25, 2008
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LEGISLATION AFFECTED

None.

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce Goldberg". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Bruce Goldberg, M.D.
Director

CC: Sheila Baker, Legislative Fiscal Office
John Britton, Legislative Fiscal Office
Blake Johnson, BAM, Department of Administrative Services

