

Performance Audit Report

Pierce County Regional Support Network

Pierce County Performance Audit Committee

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Submitted by

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Note on Revisions, July 7, 2006

This report contains revised data on pp. 10-11 about the RSN's fund balance and reserves. The revised material is shown in blue shading.

Details are in Attachment G, which is a memo presented to the RSN Governing Board in early July.

I. Introduction

Recent funding and public policy changes have created a mental health acute care crisis in the Pierce County Regional Support Network (RSN). The changes threaten the financial viability of the RSN and of the community agencies that provide critical services to Medicaid-enrolled and other Pierce County residents with mental disorders.

This report, commissioned by the Pierce County Council in February 2006 as part of emergency ordinance No. 2006-17, analyzes the complex issues and provides a set of recommendations to support a positive outcome. Specifically, the report addresses two major areas:

Inpatient Analysis: Analyze Pierce County public mental health historical and projected inpatient revenues, expenses, demand, and bed availability, including Evaluation and Treatment Center projections, use of Western State Hospital, and other available inpatient resources. Evaluate financial feasibility of the RSN's plans for inpatient services.

Funding Issues: Analyze the sources and distribution of RSN funding, matching actual and budgeted revenue and expense by funding source (Medicaid, non-Medicaid, etc.) and by program area (inpatient, outpatient, crisis, etc.). Review the corresponding utilization for these services and the average cost per client and cost per service. This will include an examination of historical data, estimates for State Fiscal Year 2006, and projections for State Fiscal Year 2007.

The report includes RSN revenue and expense data going back to 1999 reconstructed from the general ledger. While the figures may raise questions about why the RSN authorities made various decisions in the past, the report is not an historical account of RSN policy or funding decisions. Rather than recounting past controversies, the analysis in this report focuses on current dangers and on what must be done now.

Research for the report was conducted between March and June 2006. We appreciate the cooperation of the Pierce County RSN staff and the community mental health agencies that provided much of the data on which the report is based. We also appreciate the support of the Pierce County Performance Audit Office.

Section II summarizes the report with a high-level overview of the important issues facing the Pierce County RSN.

Section III provides more detailed analysis of the key issues.

Section IV presents 12 recommendations, including those that require immediate, mid-term, and longer-term action.

Six attachments to the report (A-F) provide detailed back-up information.

II. Summary

Pierce County RSN is facing an acute care crisis that has the potential to threaten the financial viability of the RSN and local community provider organizations. This crisis is the culmination of various changes at the federal, state, and local level in services, policy, and funding that have been unfolding for a number of years, including:

- Change in federal regulations that restrict how Medicaid funds can be used throughout the mental health system, which reverses many years of funding decisions.
- Two 16% funding cuts to community providers in 2002 and 2005 in response to state-level reductions and the need to fund the acute care mental health needs of local residents.
- State funding shift of Medicaid and non-Medicaid funds toward population-based allocations statewide that does not adequately address the needs of Pierce County residents.
- Draw-down of Pierce County RSN reserves and fund balances since 2000 to support local services, primarily related to Puget Sound Behavioral Health.
- Historically high Pierce County use of beds at Western State Hospital and the migration of persons with higher acuity into the community. (See the discussion in Attachment B.)
- Closure of Puget Sound Behavioral Health and the transfer of patients to Western State Hospital (January-May 2006).

Three other events scheduled to occur this summer may place the Pierce County mental health system in immediate jeopardy:

- **State Funding Reallocations:** Beginning July 1, 2006, the Fiscal Year 2007 Mental Health Division Budget passed by the Legislature will reduce non-Medicaid funding to the Pierce County RSN by approximately \$3.5 million (from \$16 million to \$12.5 million). Although the funding cut is offset by a nearly equivalent increase in Medicaid funding, recent changes in federal regulations prohibit use of Medicaid funds for non-Medicaid purposes; the resulting cut significantly increases the gap between available non-Medicaid funding and identified need. A 2004 study by the Washington State Joint Task Force on Mental Health determined that Pierce County had more than \$19 million in non-Medicaid services that should be supported by the Mental Health Division.
- **Pierce County RSN Reallocations:** In response to State funding changes, the Pierce County RSN is in the process of finalizing contract amendments to phase in \$1.7 million of non-Medicaid funding cuts to the three Core Service Agencies: Comprehensive Mental Health Center, Greater Lakes Mental Health, and Good Samaritan Behavioral Health. This represents a 73% cut in non-Medicaid

outpatient funding and follows two substantial previous funding cuts in 2002 and 2005. These reductions will virtually eliminate case management and other outpatient funding to seriously mentally ill individuals without Medicaid coverage.

- **Western State Hospital Bed Reallocation:** On September 1, 2006, the Mental Health Division's new contract with the RSN will go into effect if agreed by Pierce County. It dramatically increases the financial risk to Pierce County. Under the new contract, Pierce County will be charged liquidated damages of \$414 per day for each day that Pierce County exceeds its census allocation of 166 beds at Western State Hospital, to be deducted monthly from the RSN's non-Medicaid funding from the state. In order to prevent these damages, the Pierce County mental health system needs to reduce the current census of 224 (as of May 26, 2006) by 58 beds. We estimate damages to Pierce County of between \$462,000 and \$3.9 million during Fiscal Year 2007, depending on how much progress can be made in reducing the census. It will take an *extraordinary* set of efforts by all local stakeholders to prevent additional cuts in non-Medicaid funding.

The current RSN contracts with the providers assign full risk for the state hospital liquidated damages to the three Core Service Agencies. This risk structure combined with the non-Medicaid funding cuts to these providers and the large number of beds that Pierce County is currently over the census allocation has the potential to create substantial financial losses for all three providers, including potential insolvency. In that case the RSN would be unable to meet state contractual requirements and the needs of Pierce County residents with mental disorders.

The analysis in this report explains the acute care crisis, presents detailed information about the newly-opened Evaluation and Treatment Center, and shows the financial situation of the Pierce County RSN between 1999 and 2006.

The 12 recommendations in the report, explained below on pages 25-31, can be briefly summarized as follows:

Immediate Action

1. Schedule and hold a half-day work session to brief the new Governing Board on this performance audit report.
2. Pursue an expedited process to hire the new RSN Administrator.
3. Transform the working relationship between the RSN administration and the community mental health providers.
4. Immediately revise the RSN budget scheduled to take effect on July 1, 2006.

5. Immediately revise the July 1 provider contract amendments to address the imbalance in risk for liquidated damages.
6. Develop and implement an emergency plan to bring down the Pierce County census at Western State Hospital.
7. Build relationships with key Mental Health Division staff in order to increase understanding of the Pierce County challenges and obtain needed support.
8. Complete a study of Pierce County indirect overhead allocations to RSN services.

Medium-Term Actions

9. Conduct a study to determine whether the RSN should continue to support Involuntary Treatment Act costs in the Pierce County criminal justice system.
10. Develop and implement a three-year stakeholder clinical/financial re-design plan.
11. Design and complete a study of the quality, safety, and costs of care of existing staff models for Evaluation and Treatment Centers, including the Pierce County E&T Center.

Longer-Term Action

12. Develop a long-range plan for community inpatient services.

III. Performance Audit Analysis

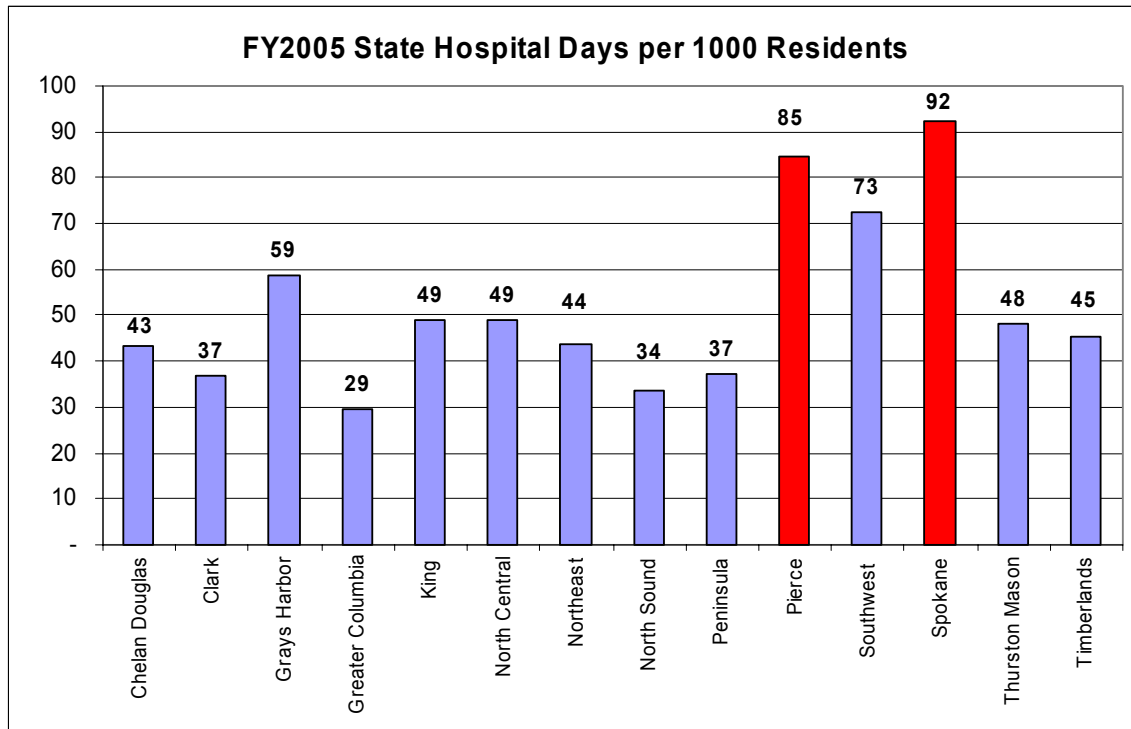
1. Pierce County mental health funding has been reduced by means of changes in state hospital bed allocations and in non-Medicaid funding

Since 2000, the State Legislature and the Mental Health Division of the Washington State Department of Social and Health Services have taken a number of steps to reallocate mental health funds within Washington State. Most significantly, reductions in state hospital bed allocations and cuts in non-Medicaid funding have decreased the resources available for Pierce County mental health services.

State Hospital Beds

For decades, Pierce County and Spokane County have used a much larger share of state hospital beds than would be expected from the populations of those two counties. However, those counties are the locations for Western and Eastern State Hospitals. Exhibit 1 illustrates state hospital usage for Fiscal Year 2005, translating the bed days into days per 1,000 residents of each RSN.

Exhibit 1: FY2005 Actual State Hospital Usage



In 2000 the Mental Health Division, in an effort to bring down state hospital costs, began a six-year bed-census reallocation process based on the assumptions that the need for state hospital beds should be similar throughout the state and that higher census figures in certain RSNs were due to ineffective management. Added to a hospital downsizing that began in FY1994, this policy change resulted in a loss of 117 Pierce County beds at Western State Hospital, from 266 beds in FY1993 to 149 in FY2006.

In response to external pressures, including a lawsuit against the state filed by Pierce County over state hospital usage, the State Legislature made three additional changes in 2006:

- ⇒ Revised the system of liquidated damages to increase the penalties to RSNs that are over census.
- ⇒ Increased the number of state hospital beds at Eastern and Western State Hospitals.
- ⇒ Revised the state hospital bed allocation formula and directed the RSNs to come up with their own formulas for allocating state hospital beds.

The new system of liquidated damages goes into effect September 1, 2006. Under this system, RSNs will be charged liquidated damages of \$414.47 per day for each day that the RSN exceeds its bed-census allocation. In April 2006 the nine Western Washington RSNs completed negotiations and agreed on the Western State Hospital allocations shown in Exhibit 2.

Exhibit 2: FY2007 Western State Hospital Allocations

RSN	Current Allocation	7/1/06 Allocation	9/1/06 Allocation	12/1/06 Final Allocation	Jan - April 2006 Avg Census	Jan - Apr 2006 Over (Under) 9/1/06 Alloc	
Clark	45	51	53	56	43	(10)	-18%
Grays Harbor	16	12	12	12	11	(1)	-5%
King	216	257	257	267	250	(7)	-3%
North Sound	105	127	143	149	103	(40)	-28%
Peninsula	42	45	47	49	33	(14)	-29%
Pierce	149	159	166	173	217	51	31%
Southwest Thurston-	15	15	16	16	16	(0)	-2%
Mason	37	37	38	40	39	1	3%
Timberlands	18	14	15	15	14	(1)	-5%
Total	643	717	747	777	727	(20)	-3%

Although the Pierce County allocation increases from the current figure of 149 beds to 173 by December 2006, Pierce is the only RSN that is allocated substantially fewer beds than the actual census for January through April 2006. This is due primarily to the

transfer of patients to Western State Hospital that took place during the closure of Puget Sound Behavioral Health (January-May 2006). It will take time to reduce the Pierce County census at Western State Hospital. As of May 26 this year, the Western State Hospital Census was at 224, or 58 beds over the allocation for September 2006. We estimate damages to Pierce County of between \$462,000 and \$3.9 million during Fiscal Year 2007 (July 2006 – June 2007).

Non-Medicaid, State-Only Funding

In 2004 the Washington State Joint Task Force on Mental Health was convened to address a crisis in non-Medicaid funding brought about by changes in federal regulations. Under the new regulations, Medicaid savings could no longer be used to serve non-Medicaid persons or support non-Medicaid services to Medicaid persons. In the course of its work, the task force estimated that \$41 million per year of Medicaid funds were being used for these non-Medicaid purposes. During the 2005 Legislative Session the Task Force made recommendations that resulted in passage of mental health reform legislation and a budget proviso to backfill the impending non-Medicaid losses for Fiscal Years 2006 and 2007.

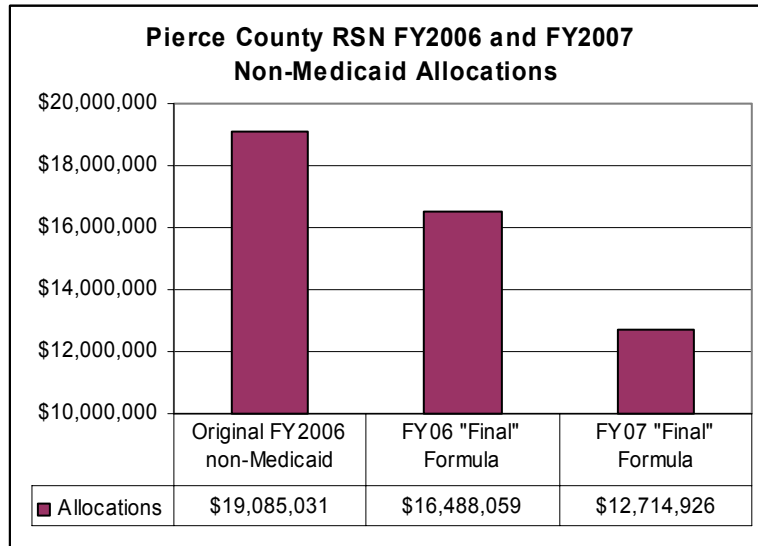
As part of its work, the Joint Task Force identified \$157,600,000 of priority non-Medicaid mental health services statewide. \$105 million of these services were funded by the Legislature for Fiscal Year 2006, including \$19.1 million of non-Medicaid funds for Pierce County for inpatient, crisis, residential, and outpatient services. (Of this Pierce County total, \$14.8 million was categorized with the highest priority level). Following these efforts, two important changes occurred that significantly impacted Pierce County.

2005 Legislative Session: In order to address the concern by some RSNs that their funding levels would drop because they had not provided a sufficient level of Medicaid services to justify current funding levels, funding allocations were changed to transfer non-Medicaid monies to fill those gaps. This had the unintended consequence of significantly reducing non-Medicaid funds to five other RSNs in Fiscal Year 2006. The impact on Pierce County was a \$2.6 million cut in non-Medicaid funding – from \$19.1 million to \$16.5 million.

2006 Legislative Session: During the 2006 Legislative session, Medicaid funding levels were increased statewide by 13% and non-Medicaid funding levels were re-examined due to the problems with the FY2006 allocation. During this review a decision was made to reallocate non-Medicaid funding based on the population of each RSN. Although called a “simpler method” than previous allocations, this decision abandoned the Joint Task Force’s detailed prioritization work of 2004 and resulted in additional cuts of over \$3 million in Pierce County’s non-Medicaid funding, which was reduced to \$12.5 million.

Although *total* Mental Health Division funding for Pierce County has remained stable at just under \$49 million during Fiscal Years 2005, 2006 and 2007, Pierce County is the only RSN to have a two-year adjustment that results in non-Medicaid funding levels below the FY2006 High Priority Services level. Exhibit 3 below illustrates the impact of these changes. Attachment C gives additional detail.

Exhibit 3: Pierce RSN Non-Medicaid Funding, FY2006 and FY2007



Funding Allocation Methodologies

The allocations described above illustrate a trend that has been underway in Washington State to move toward a funding distribution based on the assumption that the prevalence of serious mental illness and need for services are similar throughout the state based on population. Although research has occurred in other states and countries to study why usage is higher in certain geographic areas, Washington State has yet to complete such a study.

The first statewide research-based examination of this issue occurred with the publication of the Washington State DSHS Prevalence Study in 2003. This study began the process of analyzing utilization differences across RSNs through a literature review and consultation with an Expert Panel. Characterized as “Geographic Drift,” the Prevalence Study provided supporting data from the U.S., the Netherlands, Tasmania, and Great Britain that demonstrated *the migration of seriously mentally ill persons to urban areas and within close proximity of psychiatric institutions*. Unfortunately, the Study stopped short of adjusting the Washington prevalence figures due to data problems.

Attachment B provides additional information on this topic. However, until a more thorough analysis is completed to address this issue, the challenges described in this report will continue to exist.

2. Pierce County RSN reserve and fund balance levels are sufficient to meet state contract requirements, but they are insufficient to provide long-term funding for the acute care crisis

Note: Material shown below in blue shading (pp. 10-11) was revised on July 7 after new information became available from RSN accounting staff. Attachment G gives a brief explanation of the changes.

Reserve Requirements

The new Mental Health Division contract requires each RSN to have a 5% Medicaid Risk Reserve based on annual MHD funding and a new inpatient reserve to cover outstanding hospital claims. Currently, the Medicaid Risk Reserve requirement is \$1.6 million for Pierce County. The RSN administration has set aside additional inpatient reserve funds in its State Fiscal Year 2007 budget (July 2006-June 2007). The MHD contract also allows for an Operating Reserve by official action of the RSN Board, up to a maximum of an additional \$2.4 million.

Fund Balances

Between 1999 and 2006, the Pierce County RSN Fund Balances dropped \$11.3 million, from \$14.8 million at the beginning of 1999 to a projected balance of \$3.5 million at June 30, 2006. Exhibit 4 below shows the annual changes. (2006 figures are projected for January through June.)

Exhibit 4: Fund Balances, 1999 - 2006

Year	Fund Balance - Beginning of Year	Change	Fund Balance - End of Year
1999	\$14,797,238	\$1,190,987	\$15,988,225
2000	\$15,988,225	(\$8,150,575)	\$7,837,674
2001	\$7,837,674	(\$11,320,591)	(\$3,482,915)
2002	(\$3,482,915)	(\$2,089,242)	(\$5,572,157)
2003	(\$5,572,157)	\$5,296,265	\$974,110
2004	\$974,110	\$5,738,746	\$6,712,815
2005	\$6,712,815	(\$1,438,613)	\$5,274,203
2006 (Jan-June)	\$5,274,203	(\$1,738,168)	\$3,536,035

1999 – 2006 Use of Fund Balances

Exhibit 5 describes how the \$11.3 million from the fund balance was used over the years. Attachment D provides a detailed analysis of these figures for 1999 - 2005.

Exhibit 5: Analysis of Change in Fund Balance, 1999 – 2006

Use of Funds	Amount	Period
Purchase of the Puget Sound Behavioral Health building	(\$2,479,988)	2000 - 2001
Other Capital Expenditures for the Puget Sound Behavioral Health building	(\$833,687)	2004 - 2005
Subsidies of PSBH non-Mental Health Services (e.g. chemical dependency, emergency room, cafeteria) *	(\$4,456,923)	2000 - 2005
Subsidies of the Professional Office Building activities that were acquired with the Puget Sound Hospital purchase *	(\$964,445)	2000 - 2005
January - June 2006 Deficits	(\$1,738,168)	2006
Other Transfers and Uses	(\$787,992)	2000 - 2006
Total	(\$11,261,203)	

Note *: The non-Mental Health Services and Professional Office Building uses do not include any administrative or indirect overhead allocations, which would increase these figures.

Value of RSN Real Property

The projected ending fund balance of \$4.6 million (June 2006) does not include the assessed value of the land and buildings acquired during the purchase of Puget Sound Behavioral Health in 2000 using Mental Health Division funds. Exhibit 6 lists the 2006 Pierce County Assessor's values for tax purposes.

Exhibit 6: 2006 Tax-Assessed Value of PSBH Properties

Property	Amount
Puget Sound Behavioral Health Building	\$15,563,500
Puget Sound Behavioral Health Land	\$1,173,700
Professional Office Building	\$2,384,800
Professional Office Building Land	\$596,800
Vacant Lot, 3557 Pacific Avenue	\$291,700
Total	\$20,010,500

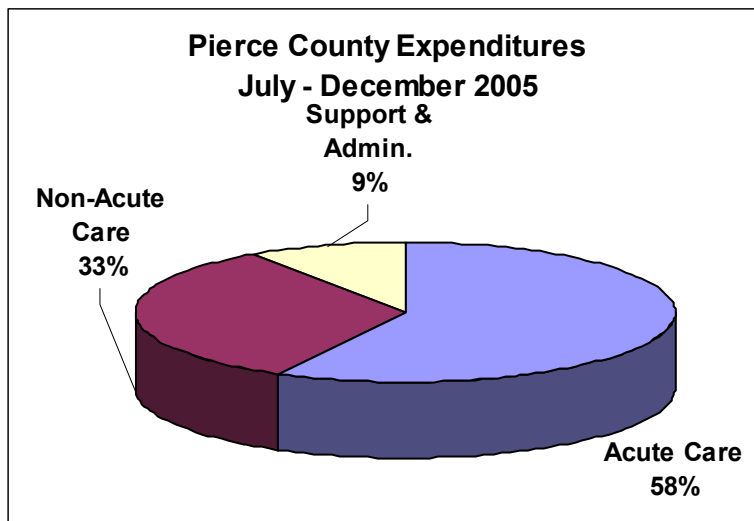
Insufficient Fund Balances for Acute Care Crises

With a current RSN fund balance of \$3.5 million and \$20 million locked up in land and buildings, the \$1.9 million fund balance available for use (e.g. not required as risk reserve by contract) is insufficient to provide a long-term solution to the acute care crisis, which is estimated at between \$462,000 and \$3.9 million during Fiscal Year 2007.

3. Pierce County RSN acute-care costs impact the ability to provide community-based services

An important measure of a system’s performance is the amount of money spent on ongoing, recovery-oriented client services, compared with funds spent during acute psychiatric crises. Non-crisis services, also known as Non-Acute Care services, include residential, outpatient, and other direct services. Acute Care services include state hospital, community inpatient, and crisis services. Exhibit 7 provides a visual presentation of these “pie slices”, plus Administration, for Pierce County for July – December 2005.

Exhibit 7: July – December 2005, Acute and Non-Acute Care Expenditures



Pierce County RSN Acute Care Costs (\$22.6 million), when calculated on a per capita basis and as a percentage of total costs, are the *second highest* in the state. Non-Acute Care Costs (\$12.8 million) are the *lowest* in the state. Exhibits 8 and 9 compare expenditures at the four RSNs with major urban centers for the six-month period.

Exhibit 8: July – December 2005, Acute and Non-Acute Care Expenditures Detail, Part 1

	Clark	King	Pierce	Spokane	State Totals
Expenditures					
Inpatient (see note *)	\$3,925,047	\$28,761,499	\$18,244,104	\$12,694,985	\$102,445,191
Crisis Services	\$1,138,386	\$5,225,966	\$4,400,154	\$2,260,814	\$23,928,392
Acute Care Total	\$5,063,433	\$33,987,465	\$22,644,258	\$14,955,799	\$126,373,583
Residential	\$311,190	\$1,288,404	\$1,441,957	\$775,445	\$4,628,428
Outpatient Services	\$5,761,308	\$27,227,809	\$9,860,567	\$8,007,394	\$93,346,085
Other Direct	\$62,386	\$4,977,582	\$1,561,036	\$1,105,822	\$18,057,511
Non-Acute Care Total	\$6,134,884	\$33,493,795	\$12,863,560	\$9,888,661	\$116,032,025
Support & Administration	\$2,024,144	\$6,314,403	\$3,709,140	\$1,320,534	\$26,078,275
Total	\$13,222,461	\$73,795,662	\$39,216,958	\$26,164,995	\$268,483,882

Note *: Inpatient expenditures for all RSNs are a comprehensive statement of inpatient expenses, including placements at Western State Hospital. Those inpatient amounts do not appear in the RSN accounts because they are “carved out” and paid separately by the Mental Health Division of DSHS. For example, for Pierce County during this six-month period, \$12.1 million of the \$18.2 million inpatient expenditures refers to placements at Western State Hospital.

Exhibit 9: July – December 2005 Acute and Non-Acute Care Expenditures Detail, Part 2

	Clark	King	Pierce	Spokane	State Totals
Total Population	383,305	1,788,352	744,024	432,005	6,167,868
Annualized Per Capita Cost					
Acute Care Total	\$26.42	\$38.01	\$60.87	\$69.24	\$40.98
Non-Acute Care Total	\$32.01	\$37.46	\$34.58	\$45.78	\$37.62
Support & Administration	\$10.56	\$7.06	\$9.97	\$6.11	\$8.46
Total	\$68.99	\$82.53	\$105.42	\$121.13	\$87.06
Annualized Per Capita Cost Ratios					
Acute Care Total	38.3%	46.1%	57.7%	57.2%	47.1%
Non-Acute Care Total	46.4%	45.4%	32.8%	37.8%	43.2%
Support & Administration	15.3%	8.6%	9.5%	5.0%	9.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Acute Care Rank	11	5	2	3	
Non-Acute Care Rank	8	9	14	12	

Note that the Pierce County figures reflect a \$5.8 million cut to the Outpatient Provider Agencies in the fall of 2002 due to the inability to maintain deficit spending in 2001 and a second \$5.4 million cut in the first half of 2005 following state funding cuts.

4. The planned Pierce County RSN budget (July 2006-June 2007) will not resolve the acute-care crisis

As discussed in a previous section (pp. 8-9), the reallocation of state public mental health funds that goes into effect on July 1 is scheduled to reduce Pierce County State-Only (non-Medicaid) funding by \$3.4 million. In April 2006, to implement these changes, the Pierce County RSN announced a plan to cut \$1.7 million in non-Medicaid funding to the community providers, while also adding \$1.2 million in one-time funding to their allocations to cushion the impact, as illustrated below in Exhibits 10 and 11.

Exhibit 10: FY2006 and FY2007 Comparisons of State Only Revenues

	FY2006 State-Only	FY2007 State-Only	Change	Change %
Revenue				
State-Only Funding	\$15,951,462	\$12,543,563	(\$3,407,899)	-21.4%
One-Time MHD State-Only Payment		\$249,460	\$249,460	N/A
Transfer in of Settlement Funds		\$949,635	\$949,635	N/A
One-Time Totals	\$0	\$1,199,095	\$1,199,095	N/A
Total State Only	\$15,951,462	\$13,742,658	(\$2,208,804)	-13.8%

Although the provider cuts are scheduled to be ramped up during the summer, the \$1.7 million reduction will virtually eliminate non-Medicaid outpatient funding in the community at a time when dramatic efforts will be needed to address the acute-care crisis. An example would be to build capacity to serve eligible non-Medicaid clients in the community so they do not require hospital services.

Exhibit 11: FY2006 and FY2007 Comparisons of State-Only Outpatient Services

	FY2006 State-Only	FY2007 State-Only	Change	Change %
Outpatient Budget				
Catholic Community Services	\$313,500	\$313,500	\$0	0%
Comprehensive	\$746,584	\$197,755	(\$548,829)	-74%
Greater Lakes	\$813,311	\$197,065	(\$616,246)	-76%
Good Samaritan	\$669,572	\$157,050	(\$512,522)	-77%
Total Community Providers	\$2,542,967	\$865,370	(\$1,677,597)	-66%

Note*: Catholic Community Services figures are for its children's crisis outreach program and child intensive services program and are not slated for funding cuts.

Exhibit 12 summarizes the Pierce County RSN’s overall budget plans, including funding from all sources for State Fiscal Year 2007 (July 2006 – June 2007).

Exhibit 12: FY2006 and FY2007 Expenditures – All Sources

	FY2006 Total	FY2007 Total	FY06-07 Change	FY06-07 Change %
Expenditures - All Sources				
Community Providers	\$31,472,426	\$29,824,829	(\$1,647,597)	-5%
County Services Non-Inpatient	\$7,518,511	\$7,369,390	(\$149,121)	-2%
Evaluation & Treatment	\$6,457,952	\$6,750,325	\$292,373	5%
Community Inpatient	\$1,459,231	\$3,828,466	\$2,369,235	162%
Total Services	\$46,908,120	\$47,773,009	\$864,889	2%
RSN/Human Services MH Admin	\$2,837,166	\$3,061,380	\$224,214	8%
Legal	\$760,000	\$100,000	(\$660,000)	-87%
Total Administration	\$3,597,166	\$3,161,380	(\$435,786)	-12%
Set-Aside for Reserves	\$2,917,419	\$2,368,950	(\$548,469)	-19%
Total Expense	\$53,422,705	\$53,303,339	(\$119,365)	0%

Note that the bulk of the state cut is being applied to community providers (\$1.6 million). The Crisis Triage service is slated to be reduced by \$149,000, and legal fees will decrease \$660,000 due to the completion of the county’s lawsuit against the state. Community inpatient projections (use of acute care hospitals in Pierce and surrounding counties) are increasing dramatically (\$2.3 million) to cover anticipated spending, not including Western State Hospital damages. RSN Administration is slated to increase \$224,000 to fund administrative functions in the new state contract as well provide funding for a new RSN Administrator. Finally, an additional \$2.4 million will be set aside for reserves.

In our opinion, this RSN budget for July 2006-June 2007 will not solve the acute-care crisis, and it could have an irreparable adverse impact on the community mental health system in Pierce County. Later in the report, we recommend an alternative budget.

5. There is a high probability that Pierce County will incur liquidated damages for bed days that exceed the state hospital census cap

On September 1, 2006, if approved by Pierce County, the Mental Health Division's new contract with the RSN will go into effect and dramatically increase the local risk. Under the new contract, Pierce County will be charged liquidated damages of \$414.47 per day for each day that it exceeds its bed census allocation. In order to prevent these damages, the Pierce County mental health system needs to reduce the current census of 224 (as of May 26, 2006) by 58 beds.

Strategies for Reducing the Census

To bring down the census, all parts of the Pierce County mental health system will need to work together to:

- Prevent hospitalizations through efforts of residential and outpatient providers to maintain persons at risk of hospitalization in the community by ensuring stable housing, sufficient medication, case management, and outpatient services. These services must be available to all persons at risk of hospitalization, including those with insurance and Medicaid coverage as well as uninsured, indigent persons.
- Prevent hospitalizations for persons experiencing a psychiatric crisis through coordinated crisis response efforts to stabilize the individual. These services must be available at outpatient provider agencies during business hours for enrolled clients and through the county's mobile crisis and crisis triage services for non-enrolled persons 24/7 and enrolled persons during evenings and weekends.
- Prevent hospitalizations by ensuring that adequate inpatient diversion resources are available and utilized to support persons in crisis to minimize the use of inpatient resources. These resources include crisis triage, crisis residential, and crisis respite care.
- Prevent Western State Hospital admissions through the effective use of the Evaluation and Treatment Center and local community hospitals, with a focus on stabilization and return to the community.
- Facilitate discharge from Western State Hospital through effective discharge planning by community providers well in advance of an individual's discharge date.
- Facilitate discharge from Western State Hospital through the availability and rapid deployment upon discharge of appropriate residential, medication, case management, and outpatient services.

Census Reduction Scenarios

Achieving and maintaining a reduction of 58 beds at Western State Hospital will require a new level of coordination between Pierce County, community providers, and others who have an impact on state hospital bed utilization. We have developed a set of scenarios that project differing levels of success over the next twelve months. Exhibit 13 summarizes the four scenarios; Attachment E provides details for each.

Exhibit 13: Western State Hospital Census Reduction Scenarios Summary

	Scenario	Bed Reduction per Month	Month Census Hits Target	FY2007 Liquidated Damages
1	Medium Drop in Census	3	Nov-07	\$3,931,234
2	Medium-High Drop in Census	5	Apr-07	\$2,171,066
3	High Drop in Census	7	Feb-07	\$1,297,491
4	Highest Drop in Census	10	Dec-06	\$462,420

As shown above, the current estimate is that non-Medicaid damages to Pierce County will range from \$462,000 (Scenario 4) and \$3.9 million (Scenario 1) during Fiscal Year 2007, based on the ability of the County and the community provider system to reduce the census.

Over Census Risk Delegation

At least five parties serve as gatekeepers to Western State Hospital:

- ⇒ The RSN Administration, which has the overall responsibility for managing the system.
- ⇒ Pierce County employees who work in mobile crisis outreach and crisis triage.
- ⇒ Pierce County employee medical staff at the Evaluation and Treatment Center.
- ⇒ Pierce County courts (Superior Court, District Court, and Tacoma Municipal Court). Each court has authority to order competency evaluations at Western State Hospital for persons who meet involuntary commitment criteria. Every person ordered to the state hospital by the courts adds to the census and to the potential liquidated damages against the Pierce County RSN for exceeding the census allocation.
- ⇒ The community providers also play a role in the state hospital census, such as preventing crises, providing alternatives to inpatient admissions, and facilitating discharge from the hospital.

Currently the Pierce County RSN provider contracts put the three Core Service Agencies at full risk for the state hospital liquidated damages, although they play a limited role in managing or influencing the daily census. In our opinion, this is an inappropriate delegation of risk. This situation will become further imbalanced if the FY2007 budget amendments described above go into effect as scheduled on July 1.

The combination of the current risk structure, the non-Medicaid funding cuts to outpatient providers, and the large number of beds that Pierce County is over the census target has the potential to result in substantial financial losses for all three providers, and potential insolvency of one or more of those providers. In that case, the RSN would be unable to meet state contractual requirements and the needs of Pierce County residents with mental disorders.

6. The Pierce County Evaluation and Treatment Center has an innovative clinical model, and costs are in the range of peer facilities

The Pierce County RSN recently opened its new Evaluation and Treatment Center in the space previously occupied by Puget Sound Behavioral Health. The RSN has plans to eventually expand the current 30 beds to 36. The following analysis compares the 30-bed facility with six similar facilities in Washington State:

- West Seattle Psychiatric Hospital (34-bed hospital co-located with a 33-bed Evaluation and Treatment Center in King County)
- Kitsap Mental Health (15-bed Evaluation and Treatment Center in Peninsula RSN)
- Behavioral Health Resources (15-bed Evaluation and Treatment Center in Thurston-Mason RSN)
- Compass Health (two 15-bed Evaluation and Treatment Centers in Snohomish and Skagit Counties in the North Sound Mental Health Administration)

Total Cost per Day

As illustrated in Exhibit 14 below, the projected Pierce County E&T costs, at \$601.61 per day, are within the cost per day range of the seven facilities. Costs of four of the other facilities are between 3% and 10% less, one is 15% less, and one is 18% greater.

Exhibit 14: Pierce County E&T Cost per Day Comparisons

	Facility 1 Hospital FY2006	Facility 2 E&T FY2006	Facility 3 E&T FY2006	Facility 4 E&T FY2006	Facility 5 E&T FY2005	Facility 6 E&T FY2005	PCRSN E&T FY2006
Cost per Patient Day							
Payroll	\$317.92	\$311.41	\$340.74	\$345.88	\$252.49	\$273.15	\$230.79
Employee Benefits	\$33.01	\$32.22	\$76.05	\$68.86	\$60.89	\$66.31	\$67.15
Clinical Professional Fees	\$35.80	\$36.50	\$0.75	\$134.08	\$93.29	\$44.19	\$9.11
Subtotal Staff & Contractor	\$386.73	\$380.13	\$417.55	\$548.82	\$406.67	\$383.64	\$307.05
Other Professional Fees	\$0.00	\$0.00	\$13.22	\$8.95	\$0.33	\$0.50	\$36.07
Supplies	\$28.56	\$26.00	\$5.33	\$14.17	\$21.13	\$29.81	\$5.39
Other Direct	\$68.20	\$9.73	\$31.61	\$80.64	\$28.92	\$44.83	\$149.91
Overhead Expense	\$98.71	\$94.62	\$96.69	\$58.34	\$82.08	\$83.43	\$103.19
Subtotal Non Staff	\$195.46	\$130.36	\$146.85	\$162.11	\$132.47	\$158.58	\$294.56
Total Cost per Day	\$582.20	\$510.48	\$564.40	\$710.93	\$539.14	\$542.22	\$601.61
Rank	3	7	4	1	6	5	2
% over (under) PCRSN E&T	-3%	-15%	-6%	18%	-10%	-10%	

Staffing Cost per Day

Exhibit 14 also shows that Pierce County’s E&T has the lowest staffing cost at \$307.05 per day, which is \$73 dollars less than Facility 2 (with the second lowest staffing cost per day). Exhibit 15 provides information that shows the difference in staff costs.

Exhibit 15: Pierce County E&T Staffing Comparisons

	Facility 1 Hospital FY2006	Facility 2 E&T FY2006	Facility 3 E&T FY2006	Facility 4 E&T FY2006	Facility 5 E&T FY2005	Facility 6 E&T FY2005	PCRSN E&T FY2006
Staff FTEs							
Medical Staff							
Medical Director	0.00	0.00	0.00	0.49	0.20	0.00	0.00
Psychiatrist	2.90	2.65	1.92	1.00	0.98	1.53	0.50
Physician	1.40	0.60	0.00	0.35	0.01	0.01	0.65
ARNP	0.75	0.75	0.00	1.40	0.00	0.00	1.00
PA	0.00	0.80	0.00	0.00	0.25	0.50	1.25
Subtotal Medical	5.05	4.80	1.92	3.24	1.44	2.04	3.40
Nursing							
RN	9.10	8.40	7.95	8.40	3.75	3.75	4.20
LPN	1.05	1.75	0.00	0.00	0.00	0.00	4.20
Subtotal Nursing	10.15	10.15	7.95	8.40	3.75	3.75	8.40
Other Inpatient Clinical Staffing							
MH Clinician (PhD/MSW/BA)	29.45	23.85	6.32	2.80	6.40	7.40	17.50
Mental Health Aide/Tech	(included above)		17.07	9.80	14.50	11.50	4.20
Adjunctive Therapies	2.13	2.13	0.00	0.00	0.00	1.00	0.60
Unit Clerk	3.15	3.15	1.00	4.20	4.80	4.80	3.50
Subtotal Other	34.73	29.13	24.40	16.80	25.70	24.70	25.80
Total Inpatient Services	49.93	44.08	34.26	28.44	30.89	30.49	37.60
Staff Hours per Day							
Medical Hours per Patient Day	0.79	0.77	0.68	1.15	0.51	0.72	0.60
Nursing Hours per Patient Day	1.58	1.63	2.81	2.97	1.33	1.33	1.48
Other Clinical Hrs/Patient Day	5.42	4.68	8.62	5.94	9.09	8.73	4.56
Total Clinical Hours/Patient Day	7.79	7.08	12.11	10.05	10.92	10.78	6.65
Rank	5	6	1	4	2	3	7

The Pierce County Evaluation and Treatment staffing model is an innovative design that is intended to provide cost effective service within the context of “meeting the total healthcare needs of the client.” As compared to other Evaluation and Treatment centers, the great majority of medical staff positions are physician extenders (i.e. physician assistants) with a reliance mainly on advanced nurse practitioners for specialized psychiatric diagnosis and intervention. The psychiatry staffing is relatively small. In addition, the day-to-day behavioral and therapeutic management is predominantly through mental health clinicians and aides with lower RN level staffing than some of the other facilities.

In total, as shown above in Exhibit 15, the Pierce County E&T has less staffing per day (6.65 hours) than any of the other facilities (but only 0.44 hours less than Facility 2). Pierce County RSN staff members appear confident that they have identified an optimal, cost effective staffing model based on their experience providing Crisis Triage, Jail, and Hospital services.

While the Pierce County model has the promise of being cost effective, it is unknown what the impact will be on overall quality, safety, and cost of care. The model should be assessed. However, there are no historical data for comparison with other Evaluation and Treatment staffing models and philosophies of care. This suggests a need for the staff to monitor key statistics to ensure that the facility is operating safely and to consider a comparative study with other facilities in the near future.

Non-Staffing Cost per Day

Exhibit 16 provides further comparison detail on the non-staffing cost per day at the seven facilities.

Exhibit 16: Pierce County E&T Non-Staff Cost Comparisons

	Facility 1 Hospital FY2006	Facility 2 E&T FY2006	Facility 3 E&T FY2006	Facility 4 E&T FY2006	Facility 5 E&T FY2005	Facility 6 E&T FY2005	PCRSN E&T FY2006
Non-Staff Cost Statistics							
Other Professional Fees	\$0.00	\$0.00	\$13.22	\$8.95	\$0.33	\$0.50	\$36.07
Supplies	\$28.56	\$26.00	\$5.33	\$14.17	\$21.13	\$29.81	\$5.39
Other Direct	\$68.20	\$9.73	\$31.61	\$80.64	\$28.92	\$44.83	\$149.91
Overhead Expense	\$98.71	\$94.62	\$96.69	\$58.34	\$82.08	\$83.43	\$103.19
Subtotal Non Staff	\$195.46	\$130.36	\$146.85	\$162.11	\$132.47	\$158.58	\$294.56
Rank	2	7	5	3	6	4	1
\$ over (under) PCRSN E&T	-\$99.09	-\$164.20	-\$147.71	-\$132.44	-\$162.09	-\$135.98	
% over (under) PCRSN E&T	-34%	-56%	-50%	-45%	-55%	-46%	

At \$294.56 per day, the Pierce County E&T non-staff costs are, at a minimum, \$99.09 per day higher (34%) than other facilities. Although it is difficult to match every expense category across the seven facilities, three set of expenses are noteworthy: Building Services, Insurance, and Allocated Overhead (a subset of total Overhead). In each case the Pierce County E&T is substantially more expensive, as illustrated below in Exhibit 17.

Exhibit 17: Selected Non-Staff Cost Comparisons

	Facility 3	Facility 4	Facility 5	Facility 6	Pierce E&T
Building Services	\$23.45	\$4.12	\$13.81	\$20.86	\$58.15
Over (under) PCRSN	-\$34.70	-\$54.03	-\$44.34	-\$37.29	
Insurance	\$9.18	\$5.29	\$5.06	\$5.66	\$44.17
Over (under) PCRSN	-\$34.99	-\$38.88	-\$39.11	-\$38.51	
Allocated Overhead	\$77.16	\$54.32	\$82.08	\$83.43	\$103.19
Over (under) PCRSN	-\$26.03	-\$48.87	-\$21.10	-\$19.76	

These comparisons raise two questions that are beyond the scope of this study:

- ⇒ Are the overhead allocations from Pierce County high due to the weighting methods or because the true costs are higher than other organizations?
- ⇒ How much does the cost of maintaining an aging physical plant contribute to the differences?

7. Future facility planning should consider the Evaluation and Treatment Center’s IMD status

The federal government classifies as Institutions for Mental Diseases (IMDs) freestanding psychiatric inpatient facilities with more than 16 beds to serve adults with mental disorders. IMDs are not allowed to use Medicaid funds to cover any costs during the course of the inpatient stay, regardless of the person’s Medicaid eligibility unless the person is under 21 or over 64 years of age. For several years Washington State interpreted its Medicaid waiver as an exemption from this IMD prohibition and Medicaid dollars were used to support facilities such as Puget Sound Behavioral Health.

With the final implementation of the Balanced Budget Act of 1997 in 2003, the federal government clarified that the IMD rule does apply to freestanding psychiatric inpatient facilities in Washington State. Because the Pierce County E&T, with 30 beds, falls into this category, virtually all of the \$6.7 million Evaluation and Treatment Center funding must come from non-Medicaid funds. Although Pierce County is not unique in this predicament (King County has a similar facility), the problem is significant. The Pierce County E&T is scheduled to draw down 47% of all non-Medicaid funds from the state during Fiscal Year 2007.

Exhibit 18 examines the Medicaid/non-Medicaid implications of running Evaluation and Treatment Centers that are over or under the 16-bed threshold. In this exhibit we have calculated the amount of money that could be drawn down from Medicaid if facilities were under the 16-bed limit. We based our calculations on PSBH bed days in calendar years 2004 and 2005 and budgeted E&T costs.

In calendar years 2004 and 2005, 47% of PSBH bed days (11,467) were provided to adults with Medicaid coverage (in contrast to adolescents and older adults). Working with the \$601.61 E&T cost per day, we calculated and backed out room and board costs of \$97.55 (16% of the total), resulting in \$504.06 per day that could potentially be supported by Medicaid. These calculations result in a Pierce County figure of 39.6% of total costs that could be funded by Medicaid if a facility were 16 beds or smaller. This same percentage has been used to estimate the Medicaid revenues for Facilities 1 – 6 below.

Exhibit 18: Medicaid Revenue Estimates for Seven Facilities

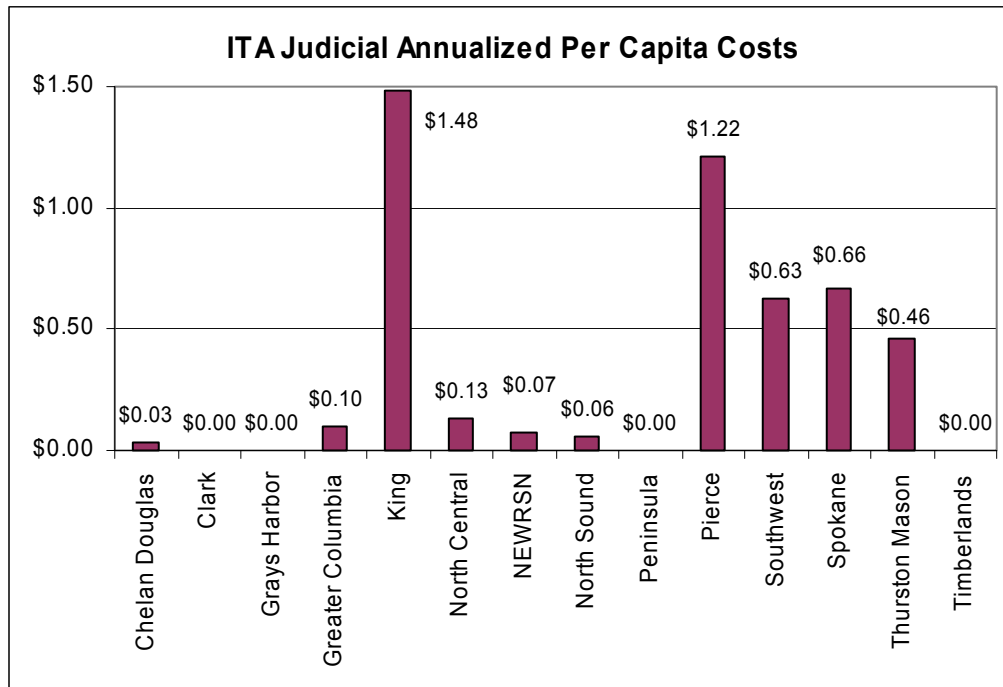
	Annualized Bed Days	Total Expense	Estimated Medicaid % Lost if > 16 Beds	16 or Fewer Beds? (can use Medicaid funding)	Estimated Medicaid Revenue (if Allowable)	Current Estimated Medicaid Revenue
Facility 1	11,541	\$6,719,296	39.6%	No	\$2,659,275	\$0
Facility 2	11,202	\$5,718,357	39.6%	No	\$2,263,136	\$0
Facility 3	5,092	\$2,873,761	39.6%	Yes	\$1,137,340	\$1,137,340
Facility 4	5,092	\$3,619,892	39.6%	Yes	\$1,432,633	\$1,432,633
Facility 5	5,092	\$2,745,152	39.6%	Yes	\$1,086,440	\$1,086,440
Facility 6	5,092	\$2,760,849	39.6%	Yes	\$1,092,653	\$1,092,653
Pierce	10,184	\$6,126,469	39.6%	No	\$2,424,654	\$0

The current reality is that the Pierce County E&T is not under 16 beds, all data suggests that 30 or more E&T beds are needed in Pierce County, and opening a new facility takes substantial resources and many years of planning. Nonetheless, due to the significance of the non-Medicaid problem and the age of the physical plant, this information is important for future planning efforts.

8. ITA judicial costs place a heavy load on available non-Medicaid funding

Pierce County is one of only two RSNs that spend a substantial portion of non-Medicaid mental health funding on Involuntary Treatment Act court costs. In state Fiscal Year 2006, the RSN will spend over \$1,000,000 on these services, 90% of which is non-Medicaid, State-Only funding. Exhibit 19 provides a comparison of spending levels across the 14 RSNs in Fiscal Year 2006.

Exhibit 19: ITA Court Costs by RSN, Fiscal Year 2006



As shown above, nine RSNs use little or no mental health funding to support ITA court costs, relying on the county general fund.

Pierce County RSN is also required to cover the court costs of all civil commitment cases including jury trials for Western State Hospital. Since the Pierce County RSN has less than 25% of the population of Western State Hospital, approximately 75% of the court hearings paid with Pierce County RSN funds are for residents of other RSNs. Because the state has changed the allocation process, there is no mechanism for reimbursing Pierce County for these expenditures.

In light of the significant cuts in Pierce County non-Medicaid funding and the impending acute care crisis, these issues suggest a need for state action and a local study, by the Pierce County Performance Audit Committee or another local body, to further analyze the issues and determine whether local action is required in this area.

VI. Performance Audit Recommendations

The following recommendations have been developed with particular attention to the imminent acute care crisis faced by the Pierce County public mental health system. The recommendations are organized into three categories: Immediate Action Needed, Mid-Term Actions, and Longer-Term Actions.

Immediate Action Needed

The following recommendations should be considered as a “package.” Selectively implementing the recommendations will likely lead to greater instability in the mental health system and the potential insolvency of one or more provider agencies.

Recommendation 1: Schedule and hold a half-day work session to brief the new Governing Board on this performance audit report

Because the issues embedded in this performance audit and the mental health system in general are varied and complex, the new RSN Board will be unable to fulfill its fiduciary duty without a series of in-depth briefings on the detailed workings of the federal and state public mental health system and the analysis and recommendations from this audit report.

Due to the urgency of the acute care crisis, a half-day work session should be scheduled within the next 15 days to brief the new board on this performance audit. If needed, further work can be conducted to provide more information.

Recommendation 2: Pursue an expedited process to hire the new RSN Administrator

Due to the urgency of the acute care crisis and the importance of hiring an individual with knowledge of the Washington State Mental Health System, the RSN Board should use an expedited process to hire the new RSN Administrator. This should include immediate posting of a job description throughout the state, circulation of the announcement through the mental health network, solicitation of résumés and applications from known potential candidates, a rapid but thorough screening process, interviews of the leading candidates, and appointment of the RSN Administrator within the next 30 to 45 days. We believe this is a desirable and feasible goal.

While consultants or recruiting agencies are sometimes employed to assist in these types of recruitments, they cannot be guaranteed to recruit a better class of candidates. It is preferable in our opinion to bypass that approach and draw from a regional pool of candidates in order to shorten the hiring timeframe.

Recommendation 3: Transform the working relationship between the RSN Administration and the community providers

The threats facing the Pierce County mental health system are real and immediate. Since funding cuts and reallocations began in 2001, the relationships between the RSN Administration and the main community providers have deteriorated. Improvements will not come spontaneously.

Unless the working relationship between the Pierce RSN and provider agencies can be transformed, it is very likely that the Western State Hospital census will remain over the allocation, substantial damages will be levied against Pierce County and passed down to the three core service agencies, and the entire system will enter a dangerous, downward spiral. To address this potential scenario, we recommend the following immediate actions:

- A “time out” should be called for all significant system changes until a new RSN Administrator is appointed and the full Board is seated and up to speed. The only exception should be for changes that would prevent financial jeopardy to the system or put the RSN out of compliance with state and federal contracts, rules or regulations. (See Recommendations 4 – 8.)
- As work begins on the other recommendations in this performance audit, a new set of “ground rules” should be developed to support the transformation of the working relationships between the RSN and provider agencies. Attachment F contains a starting set of principles that should be considered.

Recommendation 4: Immediately revise the RSN budget scheduled to take effect on July 1, 2006

In our opinion, the announced budget amendments for the provider contracts that dramatically cut non-Medicaid outpatient funding should not be put into effect. We recommend that the Pierce County RSN immediately revise the July 1, 2006 Provider Budget Amendments per Attachment A to address the financial viability concerns identified in this performance audit report. The attached budget, which is considered an “emergency budget,” includes a set of changes to restore many of the funding cuts for the purpose of maintaining enough system stability to provide a reasonable opportunity to address the acute care crisis during the next twelve months.

The Pierce County RSN Administration may wish to propose an alternative budget that accomplishes the same goal – to prevent cuts in community-based services.

Recommendation 5: Immediately revise the July 1 provider contract amendments to address the imbalance in risk for liquidated damages

We recommend that the Pierce County RSN immediately revise the July 1, 2006 provider contract amendments to change the Western State Hospital risk distribution by creating a four-way liquidated damages risk sharing arrangement that includes Pierce County Human Services. This should be followed by convening an ad hoc stakeholder workgroup within the next 45 days to develop and implement a set of criteria and an allocation formula that includes a weighting process for assignment of risk to the four parties.

Recommendation 6: Develop and implement an emergency plan to bring down the Pierce County census at Western State Hospital

Building on Recommendations 1 through 5, the RSN should convene an intensive process with key stakeholders to develop an emergency plan to bring down the Pierce County census at Western State Hospital. This group should include representatives from the new RSN Board, the four main outpatient provider organizations, Crisis Triage Center, Mobile Crisis Services, E&T, residential providers, Western State Hospital, Mental Health Advisory Board, Mental Health Division, and possibly other key resources with an expertise in inpatient diversion, discharge planning, and emergency community resource development. The emergency planning process should include the following:

- The process should be structured through a set of weekly or twice-weekly work sessions with follow-up homework to begin within 15 days of the issuance of this report and be completed within 30 days of initiation. The process should be facilitated by a neutral third party with expertise in the subject matter.
- The outcome of the process should be a set of 30, 60 and 90 day action steps to bring the census down without destabilizing the rest of the mental health system. High impact action steps that can be implemented within these short time frames should be prioritized.
- All services and resources should be “put on the table” during the planning process in order to develop an effective emergency funding plan.
- The process should be data-driven, utilizing information from this audit report and additional information as needed. The process should include developing a computerized financial and utilization model for projecting several scenarios to support the decision-making process.
- Upon completion of the emergency plan, a small stakeholder Acute Care Oversight Group should be created that will meet weekly until the crisis is stabilized. A monitoring system for tracking progress toward the census targets should be developed and used by the group to support problem identification and solution development.

Recommendation 7: Build relationships with key Mental Health Division staff in order to increase the understanding of the Pierce County challenges and obtain needed support

The RSN should pursue the following actions with the Mental Health Division within the next 30 days:

- Brief senior MHD staff on relevant analysis and recommendations from this audit report.
- Obtain approval to have a senior MHD staff person and senior Western State Hospital staff person join the emergency planning process described above.
- Work with MHD staff during the emergency planning process to consider acceleration of Assertive Community Treatment funding by the MHD as part of the emergency plan.
- Work with MHD staff to identify a separate allocation process for Western State Hospital court costs for residents that are from RSNs other than Pierce County.
- Request assistance to develop an Interagency Agreement between State of Washington Department of Social and Health Services (DSHS) and Pierce County to more fairly determine county of origin for Western State Hospital claims costs. This agreement should build on the existing protocol for assigning community inpatient responsibility and consider models from other states.
- Obtain support for completing a more comprehensive Geographic Drift study at Western State Hospital in conjunction with an already planned Eastern State Hospital Study.

Recommendation 8: Complete a study of Pierce County indirect overhead allocations to RSN services

The Performance Audit Committee should commission an urgent study of County Indirect Overhead Allocations for all RSN Services to determine if these programs are being charged for amounts that exceed a rational and systematic allocation methodology. This study should be done jointly by the Pierce County Budget and Finance Department and MCPP Healthcare Consulting, as a follow-up to this performance audit.

The project should be completed no later than 30 days from the date of this report. If allocation adjustments are appropriate, the County Council should work with the Executive to expedite those adjustments so that any freed up funding can be included in the emergency planning process described above.

Medium-Term Actions

Recommendation 9: Conduct a study to determine whether the RSN should continue to support Involuntary Treatment Act costs in the Pierce County criminal justice system

As shown in the report (page 24), the Pierce County RSN pays an unusually large share per capita of Involuntary Treatment Act costs. Further, the costs for FY 2006 are over \$1 million, of which 90% is the State-only (non-Medicaid) funding that has been so sharply reduced for Pierce County. Given the major changes that have occurred at the state level, it is open to question that Pierce County RSN funding of ITA court costs should continue at such a high level.

A local study should be conducted, by the Performance Audit Committee or another local body, to assess whether changes should be made in the current Pierce County RSN funding of the criminal justice system.

Recommendation 10: Develop and implement a three-year stakeholder clinical/financial re-design plan

Recommendation 6 called for an emergency plan to reduce the Pierce County census at Western State Hospital. By definition, an emergency plan has a short shelf life, perhaps no more than 12 months. As implementation moves forward on that emergency plan, planning should begin on a workplan and timeline for developing a more stable and sustainable three-year plan. This planning process should be based on the same structure as the emergency plan – data driven, stakeholder involvement, scenario developments, etc., but spread over an eight to ten week period. This project should occur in the first quarter of calendar year 2007 and include the following objectives:

- Develop a new clinical design that assumes short-term progress will be made on the acute care crisis and services can be refocused towards outpatient and residential care that will prevent acute care crises and promote resilience and recovery.
- Project the demand for inpatient, outpatient, crisis, and residential services for all age groups, payor sources, and geographic regions. Complete a gap analysis between the projected demand and available capacity. Use this analysis to aid in a redesign of the service delivery system.
- Update the October 1992 Pierce County Residential Plan and reengineer the residential management plan towards making residential services a county-wide resource.

- Develop a new funding model for purchasing services that focuses on matching funds with client need and addresses the risk and accountability imbalances in the current system.
- Explore the viability of using the new taxing authority to add a mental health sales tax in Pierce County to provide mid-range relief for the acute care crisis.

Recommendation 11: Design and complete a study of the quality, safety, and costs of care of existing staffing models for Evaluation and Treatment Centers, including the Pierce County facility

The Pierce County Evaluation and Treatment Center has an important role in maintaining community-based intensive treatment and limiting the costs of acute care. A study on the impact of different staffing models across Evaluation and Treatment center should be undertaken, beginning in late 2006 or early 2007. This study, if designed properly, will provide information to guide current program design and establish a foundation for future innovation. It would also provide the opportunity to develop community-wide indicators for quality, safety, and cost of care for the purpose of continual improvement of all Evaluation and Treatment centers across the state. The study design should include the following:

- Identify the parameters for comparison of patient populations
- Review recently developed templates for comparing staffing and costs
- Establish key performance and outcomes indicators for the following:
 - Quality of general health care
 - Quality of psychiatric diagnosis and treatment
 - Quality of behavioral and therapeutic management
 - Safety of care
 - Costs of care
- Define the methodology of data collection and analysis

Longer-Term Actions

Recommendation 12: Develop a long-range plan for community inpatient services

Due to the anticipated long-range shortage of non-Medicaid funds and the aging of the building that houses the Evaluation and Treatment Center, the RSN should develop a timeline for developing a long-range plan for community inpatient services in Pierce County.

This plan should follow on the analysis in this performance audit and work that will be completed in Recommendation 11, where it is anticipated that demand projections will be developed for inpatient bed needs for several years to come. The work should address the feasibility of relocating the E&T services to two separate 16-bed facilities in order to replace limited State-Only monies with Medicaid funding. Because of the urgency of other issues and the long-term nature of this type of change, we recommend starting this planning process no earlier than the third quarter of 2007.

Attachment A – Recommended FY2007 Pierce RSN Budget

	Original RSN Budget				Recommended Adjustments				Recommended Budget				Note
	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	
	Medicaid	State-Only	Other	Total	Medicaid	State-Only	Other	Total	Medicaid	State-Only	Other	Total	
Revenue													
Medicaid	\$34,533,609			\$34,533,609				\$0	\$34,533,609	\$0	\$0	\$34,533,609	
State Only		\$12,543,563		\$12,543,563				\$0	\$0	\$12,543,563	\$0	\$12,543,563	
State Only Jail Liaisons			\$536,597	\$536,597				\$0	\$0	\$0	\$536,597	\$536,597	
Mental HealthBlock Grant			\$680,000	\$680,000				\$0	\$0	\$0	\$680,000	\$680,000	
ESC State Only			\$125,040	\$125,040				\$0	\$0	\$0	\$125,040	\$125,040	
DCFS FAST program			\$1,530,000	\$1,530,000				\$0	\$0	\$0	\$1,530,000	\$1,530,000	
DMIO Funding			\$1,080,000	\$1,080,000				\$0	\$0	\$0	\$1,080,000	\$1,080,000	
DDD Funding			\$263,482	\$263,482				\$0	\$0	\$0	\$263,482	\$263,482	
Path Funding			\$179,508	\$179,508				\$0	\$0	\$0	\$179,508	\$179,508	
Jail Mental Health			\$669,980	\$669,980				\$0	\$0	\$0	\$669,980	\$669,980	
ITA Maintenance of Effort			\$98,000	\$98,000				\$0	\$0	\$0	\$98,000	\$98,000	
Millage			\$591,030	\$591,030				\$0	\$0	\$0	\$591,030	\$591,030	
E&T Third Party Revenue			\$534,325	\$534,325				\$0	\$0	\$0	\$534,325	\$534,325	
1-Time MHD State Only Pmt		\$249,460		\$249,460				\$0	\$0	\$249,460	\$0	\$249,460	
Transfer in of Settlement Funds		\$949,635		\$949,635				\$0	\$0	\$949,635	\$0	\$949,635	
Undesignated Fund Balance				\$0		\$397,241		\$397,241	\$0	\$397,241	\$0	\$397,241	A
Total Revenues	\$34,533,609	\$13,742,658	\$6,287,962	\$54,564,228	\$0	\$397,241	\$0	\$397,241	\$34,533,609	\$14,139,899	\$6,287,962	\$54,961,469	
Expense													
Catholic Community Services	\$3,216,216	\$313,500	\$1,500,000	\$5,029,716				\$0	\$3,216,216	\$313,500	\$1,500,000	\$5,029,716	
Comprehensive	\$6,970,212	\$1,050,663	\$925,765	\$8,946,640		\$558,829		\$558,829	\$6,970,212	\$1,609,492	\$925,765	\$9,505,469	B
Greater Lakes	\$6,782,959	\$1,053,878	\$843,854	\$8,680,691		\$616,246		\$616,246	\$6,782,959	\$1,670,124	\$843,854	\$9,296,937	B
Good Samaritan	\$5,382,600	\$818,494	\$174,000	\$6,375,094		\$512,522		\$512,522	\$5,382,600	\$1,331,016	\$174,000	\$6,887,616	B
PTHA	\$296,796	\$0	\$68,196	\$364,992				\$0	\$296,796	\$0	\$68,196	\$364,992	
SeaMar	\$101,496	\$0	\$0	\$101,496				\$0	\$101,496	\$0	\$0	\$101,496	
A Common Voice	\$0	\$0	\$150,000	\$150,000				\$0	\$0	\$0	\$150,000	\$150,000	
Pierce College	\$0	\$0	\$41,200	\$41,200				\$0	\$0	\$0	\$41,200	\$41,200	
Rose House	\$40,000	\$0	\$40,000	\$80,000				\$0	\$40,000	\$0	\$40,000	\$80,000	
TACID	\$0	\$0	\$55,000	\$55,000				\$0	\$0	\$0	\$55,000	\$55,000	
Total Community Providers	\$22,790,279	\$3,236,535	\$3,798,015	\$29,824,829	\$0	\$1,687,597	\$0	\$1,687,597	\$22,790,279	\$4,924,132	\$3,798,015	\$31,512,426	

	Original RSN Budget				Recommended Adjustments				Recommended Budget				Note
	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	FY2007	
	Medicaid	State-Only	Other	Total	Medicaid	State-Only	Other	Total	Medicaid	State-Only	Other	Total	
Crisis Triage	\$1,259,363	\$1,213,294	\$108,533	\$2,581,190		\$132,290	\$0	\$132,290	\$1,259,363	\$1,345,584	\$108,533	\$2,713,480	C
MOCT	\$513,739	\$1,176,399	\$203,482	\$1,893,620				\$0	\$513,739	\$1,176,399	\$203,482	\$1,893,620	
ITA Judicial	\$0	\$849,110	\$98,000	\$947,110				\$0	\$0	\$849,110	\$98,000	\$947,110	
PC Sheriff's Dept	\$0	\$0	\$669,980	\$669,980				\$0	\$0	\$0	\$669,980	\$669,980	
Jail Care Managers	\$0	\$0	\$202,510	\$202,510				\$0	\$0	\$0	\$202,510	\$202,510	
Ombuds	\$79,969	\$22,091	\$0	\$102,060				\$0	\$79,969	\$22,091	\$0	\$102,060	
RSN Care Managers	\$388,551	\$36,769	\$90,000	\$515,320				\$0	\$388,551	\$36,769	\$90,000	\$515,320	
UM Support	\$416,000	\$41,600	\$0	\$457,600				\$0	\$416,000	\$41,600	\$0	\$457,600	
Total County Outpatient Svcs	\$2,657,622	\$3,339,263	\$1,372,505	\$7,369,390	\$0	\$132,290	\$0	\$132,290	\$2,657,622	\$3,471,553	\$1,372,505	\$7,501,680	
Community Inpatient	\$3,055,884	\$250,000	\$0	\$3,305,884				\$0	\$3,055,884	\$250,000	\$0	\$3,305,884	
Pierce County E&T	\$360,000	\$5,856,000	\$534,325	\$6,750,325		-\$623,856		-\$623,856	\$360,000	\$5,232,144	\$534,325	\$6,126,469	D
Inpatient Reconciliations	\$522,582	\$0	\$0	\$522,582				\$0	\$522,582	\$0	\$0	\$522,582	
Total Inpatient (no WSH)	\$3,938,466	\$6,106,000	\$534,325	\$10,578,791	\$0	-\$623,856	\$0	-\$623,856	\$3,938,466	\$5,482,144	\$534,325	\$9,954,935	
RSN/Human Services MH Admin	\$2,308,281	\$262,069	\$491,030	\$3,061,380				\$0	\$2,308,281	\$262,069	\$491,030	\$3,061,380	
Legal	\$0	\$0	\$100,000	\$100,000				\$0	\$0	\$0	\$100,000	\$100,000	
Total Administration	\$2,308,281	\$262,069	\$591,030	\$3,161,380	\$0	\$0	\$0	\$0	\$2,308,281	\$262,069	\$591,030	\$3,161,380	
Setaside for Reserves	\$1,756,363	\$612,587	\$0	\$2,368,950		-\$612,587		-\$612,587	\$1,756,363	\$0	\$0	\$1,756,363	E
Total Expense	\$33,451,011	\$13,556,454	\$6,295,875	\$53,303,339	\$0	\$583,445	\$0	\$583,445	\$33,451,011	\$14,139,899	\$6,295,875	\$53,886,784	
Excess (Deficit)	\$1,082,598	\$186,204	-\$7,913	\$1,260,889	\$0	-\$186,204	\$0	-\$186,204	\$1,082,598	\$0	-\$7,913	\$1,074,685	F

Notes to Recommended FY2007 RSN Budget

- A:** One-time use of \$397,000 of the \$1.4 million Undesignated Fund Balance.
- B:** Comprehensive, Greater Lakes and Good Samaritan non-Medicaid, State-Only funding levels should be maintained at FY2006 levels through the combination of changes listed below.
- C:** The same changes described in item B above should be made to restore the Crisis Triage funding to FY2006 levels.
- D:** The proposed FY2007 budget for the Pierce County E&T of \$6,750,325 is \$623,856 greater than the \$6,126,469 budget figures provided for this performance audit. The FY2007 budget should be adjusted to reflect this change.
- E:** The proposed FY2007 budget for State-Only Reserve Set-Aside should be eliminated and these funds should be use to address the acute care crisis.
- F:** The cumulative effect of these changes is to create a breakeven budget. As mentioned in the recommendation, this budget should be considered an “emergency budget”, for the purpose of maintaining enough system stability to provide a reasonable opportunity to address the census problems during the next year.

Attachment B – State Hospital Analysis

For decades Pierce and Spokane Counties have used a much larger share of state hospital beds than would be expected from the populations of those two counties. They are also the locations for Western and Eastern State Hospitals.

Because state hospital expenditures currently represent over 50% of total public mental health spending in Washington State, high utilization rates in any RSN impact the ability to fund other mental health services throughout the system. During the six month period, July – December 2005, state hospital costs totaled \$208 million of the \$414 million total expenditures.

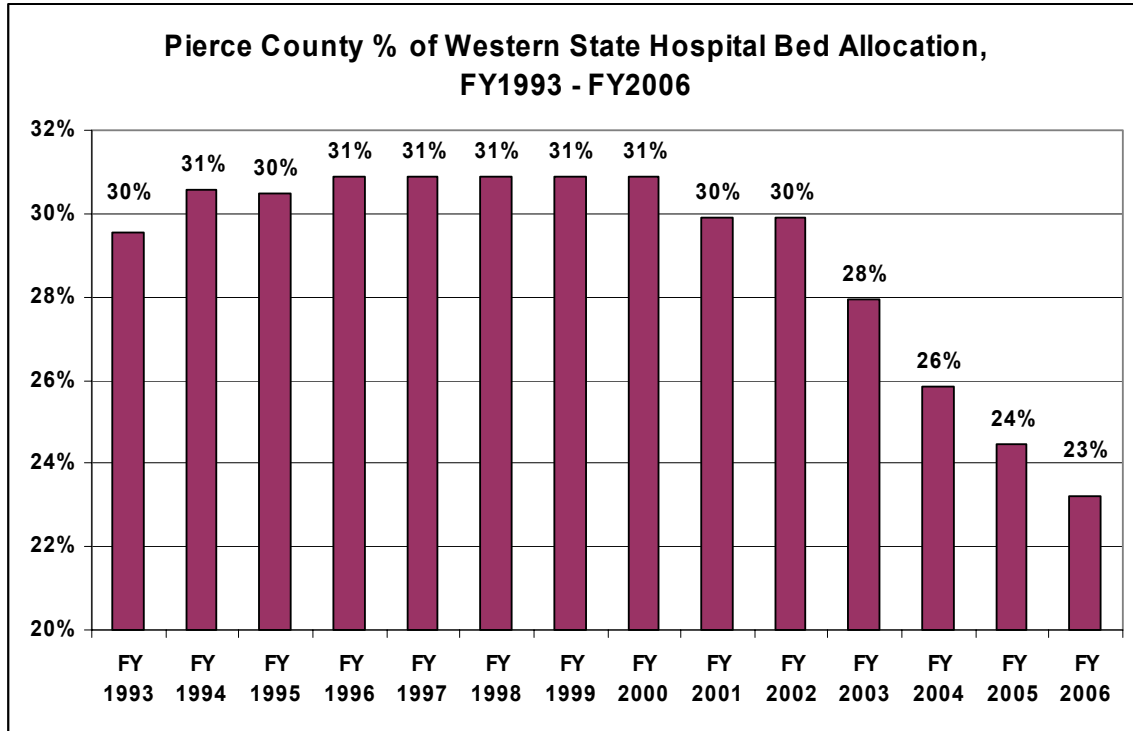
There have been two theories used to describe different usage levels across RSNs – 1) higher level of need exists in regions that are the homes of inpatient psychiatric facilities due to “geographic drift” of patients into those regions (see below for further detail); and 2) inefficient management of the local mental health system that causes more people to require more hospitalization.

In 2000 the Mental Health Division, in an effort to bring down state hospital utilization and cost, decided to address these concerns by revising the allocation of state hospital beds. At that time the state adopted the second theory – “*higher utilization is due to inefficient management*” – and began a six-year bed census reallocation process. This policy change, added to state hospital downsizing that began in FY1994, resulted in 117 fewer Pierce County beds at Western State Hospital, from 266 beds in FY1993 to 149 in FY2006, as illustrated by Exhibits B-1 and B-2.

Exhibit B-1: Western State Hospital Downsizing FY1993 – FY2006, Part 1

Year	Western State Total Census Target	Pierce County RSN WSH Allocation	Cumulative Pierce County Change	Pierce County % of Total Beds
FY 1993	900	266		30%
FY 1994	867	265	(1)	31%
FY 1995	837	255	(11)	30%
FY 1996 – FY2000	777	240	(26)	31%
FY 2001	792	237	(29)	30%
FY 2002	792	237	(29)	30%
FY 2003	762	213	(53)	28%
FY 2004	642	166	(100)	26%
FY 2005	642	157	(109)	24%
FY 2006	642	149	(117)	23%

Exhibit B-2: Western State Hospital Downsizing FY1993 – FY2006, Part 2



Geographic Drift

There has been a longstanding discussion in Washington State about the suitability of various state hospital allocation methods. The first research-informed work occurred with the publication of the Washington State DSHS Prevalence Study in 2003, which began the process of analyzing utilization differences across RSNs through a literature review and consultation with an Expert Panel. Characterized as “Geographic Drift”, the Prevalence Study provided supporting data from the U.S., the Netherlands, Tasmania and Great Britain that demonstrated *the migration of seriously mentally ill persons to urban areas and within close proximity of psychiatric institutions*. Unfortunately, the Study stopped short of adjusting the prevalence figures due to data problems.

This research is relevant to the state hospital allocation process because if a large number of persons originally residing in other counties were admitted to Western State Hospital, discharged to a residential facility in Pierce County, and re-admitted one or more times to Western State Hospital, the subsequent admissions would be “charged to” Pierce County.

In May 2000, Pierce County RSN staff randomly reviewed 16% of the files of the 224 patients who were in residence at Western State Hospital on that day and identified as being the responsibility of Pierce County. Western State Hospital cooperated with the study by supplying the RSN with the historical records (back to the first admission) for

these patients. Of the sample, 83% were clearly identified as originating from a county other than Pierce although they were now assigned to Pierce by the Mental Health Division. Some examples from the chart review of how this type of “drift” occurred are listed below:

- Admit from Snohomish after prison term; eloped from hospital; re-arrested in Pierce; sent for competency restoration; then civilly committed by Pierce CDMHP at Western State Hospital.
- Admit from Snohomish 5 years ago; still in hospital on successive Pierce County orders.
- First and last admission from Skagit; back and forth to American Lake Veterans Administration Hospital (ALVAH) in between.
- First admit from Kitsap (Retsil Soldiers’ Home); previously from King; then to ALVAH and subsequently considered Pierce.
- First admit from Snohomish; after 7 years discharged to Pierce CCF.
- Admit from King, parents and guardian also in King; discharged to Pierce.

In May 2006 the five RSNs in Eastern Washington, as part of their Eastern State Hospital bed census allocation process, agreed to follow up on the Prevalence Study and work with Eastern State Hospital to complete an *Eastern State Hospital County of Origin Study* for the purpose of determining what impact Geographic Drift may have had on the ESH census and what adjustments should be made to the allocations for the Eastern Washington RSNs.

Other Geographic Drift Issues

In addition to Western State Hospital, there are several other facilities in Pierce County that may impact Geographic Drift and contribute to a higher prevalence of seriously mentally ill persons residing in the community, requiring crisis, residential and outpatient services. These include the following:

Pierce County is the home of two state prisons: **McNeil Island Prison**, which has a special mental health program authorized by the legislature with a focus on discharge preparation, and the **Women’s Correction Center in Purdy**, which is the only female offender prison in the state. Pierce County is responsible for all Involuntary Treatment Act investigations for prisoners thought to be in need of psychiatric hospitalization at the end of their sentences at these two facilities.

Pierce County contains the only two specialized **Work Release Facilities** in the state for Mentally Ill and Developmentally Disabled Offenders. The purpose of these programs is to prepare people for release and engage them in community services while still in work release.

Historically, there has been substantial development of **Boarding Home and Nursing Home Beds** in Pierce County to support demand caused by downsizing at Western State Hospital. A 2004 DSHS Residential Study showed that Pierce County, with 12% of the adult population in the state, had 20% of the mental health residential beds in the state.

Rainier School for Developmentally Disabled is located in Pierce County. The Pierce County RSN handles Involuntary Treatment Act investigations for the school and a network of developmentally disabled-oriented residential services that has been built in Pierce County to support this population. This includes two of the State's largest providers of outpatient and residential services for high need, developmentally disabled persons - **Aacres Landing** and **Life Force**. These populations tend to be high users of crisis, inpatient, and jail services.

Madigan Army Medical Center provides inpatient psychiatric service to support active duty and retired veterans and serves as the out-processing center for several states when a veteran is being considered for psychiatric discharge from active duty.

American Lake Veterans Hospital serves psychiatrically disabled or needy honorably discharged veterans. Many have relocated in Pierce County to be near these services. Pierce County is responsible for all Involuntary Treatment Act investigations for these veterans and, because the Veterans Administration Hospital does not accept 72 hour detentions, they are served in Pierce County-funded inpatient community beds.

The practice of the **Center for Forensic Service** is to arrange for outpatient treatment for conditionally released NGRI (not-guilty by reason of insanity) patients to Pierce County regardless of their county of conviction so that the Center for Forensic Service staff can provide required monitoring of their compliance. The Pierce County RSN contract requires that the RSN serve these individuals as long as they meet access to care standards. Many if not most, establish relationships, supports, and housing in Pierce County and then come to the RSN under "consumer choice" requirements when their period of conditional release expires.

Attachment C – Non-Medicaid Allocations

Exhibits C-1 and C-2 provide additional information on the impact of the 2005 and 2006 Legislative Sessions on Pierce County non-Medicaid funding.

Exhibit C-1: Non-Medicaid Funding by RSN, FY2006 and FY2007

RSN	Original FY2006 non-Medicaid	FY06 "Final" Formula	FY2006 Change	FY07 "Final" Formula	FY2006 - FY2007 Change	2-Year Change
Chelan Douglas	\$1,253,908	\$1,119,982	-\$133,926	\$1,765,343	\$645,361	\$511,435
Clark	\$4,566,789	\$5,869,854	\$1,303,065	\$6,550,544	\$680,690	\$1,983,755
Grays Harbor	\$1,448,389	\$2,399,219	\$950,830	\$1,186,379	-\$1,212,840	-\$262,010
Greater Columbia	\$9,831,988	\$12,907,392	\$3,075,404	\$10,902,095	-\$2,005,297	\$1,070,107
King	\$32,112,334	\$24,553,290	-\$7,559,044	\$30,507,696	\$5,954,406	-\$1,604,638
NEWRSN	\$747,080	\$2,637,472	\$1,890,392	\$1,193,859	-\$1,443,614	\$446,779
North Central	\$2,012,946	\$4,274,534	\$2,261,588	\$2,312,272	-\$1,962,262	\$299,326
North Sound	\$16,192,709	\$15,751,471	-\$441,238	\$17,431,575	\$1,680,105	\$1,238,866
Peninsula	\$4,064,504	\$4,404,909	\$340,405	\$5,670,879	\$1,265,971	\$1,606,375
Pierce	\$19,085,031	\$16,488,059	-\$2,596,972	\$12,714,926	-\$3,773,133	-\$6,370,105
Southwest	\$1,325,473	\$2,021,785	\$696,312	\$1,637,468	-\$384,317	\$311,995
Spokane	\$7,332,504	\$5,813,122	-\$1,519,382	\$7,427,848	\$1,614,726	\$95,344
Thurston Mason	\$3,120,360	\$5,683,503	\$2,563,143	\$4,606,318	-\$1,077,185	\$1,485,958
Timberlands	\$1,199,983	\$1,902,409	\$702,426	\$1,633,797	-\$268,612	\$433,814
Total	\$104,293,998	\$105,827,000	\$1,533,002	\$105,541,000	-\$286,000	\$1,247,002

Exhibit C-2: Excess (Deficit) of Non-Medicaid Priority Funding

RSN	Original FY2006 "Priority Services"	Original FY2006 Per Capita Portion	Original FY2006 non-Medicaid	FY07 "Final" Formula	FY07 Final Formula above(below) FY06 Priority Services	
Chelan Douglas	\$660,812	\$593,096	\$1,253,908	\$1,765,343	\$1,104,531	167%
Clark	\$2,351,061	\$2,215,728	\$4,566,789	\$6,550,544	\$4,199,483	179%
Grays Harbor	\$1,048,367	\$400,022	\$1,448,389	\$1,186,379	\$138,012	13%
Greater Columbia	\$6,187,858	\$3,644,130	\$9,831,988	\$10,902,095	\$4,714,237	76%
King	\$21,774,775	\$10,337,559	\$32,112,334	\$30,507,696	\$8,732,921	40%
NEWRSN	\$341,856	\$405,224	\$747,080	\$1,193,859	\$852,003	249%
North Central	\$1,234,869	\$778,077	\$2,012,946	\$2,312,272	\$1,077,403	87%
North Sound	\$10,291,809	\$5,900,900	\$16,192,709	\$17,431,575	\$7,139,766	69%
Peninsula	\$2,143,012	\$1,921,492	\$4,064,504	\$5,670,879	\$3,527,867	165%
Pierce	\$14,784,218	\$4,300,813	\$19,085,031	\$12,714,926	-\$2,069,292	-14%
Southwest	\$774,576	\$550,897	\$1,325,473	\$1,637,468	\$862,892	111%
Spokane	\$4,835,258	\$2,497,246	\$7,332,504	\$7,427,848	\$2,592,590	54%
Thurston Mason	\$1,563,628	\$1,556,732	\$3,120,360	\$4,606,318	\$3,042,690	195%
Timberlands	\$647,930	\$552,053	\$1,199,983	\$1,633,797	\$985,867	152%
Total	\$68,640,029	\$35,653,971	\$104,293,998	\$105,541,000	\$36,900,971	54%

Attachment D – Combined Revenue and Expense Summary 1999 - 2005

	1999	2000	2001	2002	2003	2004	2005	Total
Beginning Fund Balance	\$14,797,238	\$15,988,225	\$7,837,649	-\$3,482,942	-\$5,572,184	\$974,081	\$6,712,827	\$14,797,238
Pierce Co RSN Programs & Overhead								
Revenue								
Medicaid Funding	\$39,335,690	\$40,514,503	\$39,153,743	\$42,095,911	\$46,934,008	\$44,577,703	\$29,498,999	\$282,110,557
State Funding	\$1,887,428	\$1,513,187	\$3,217,298	\$1,900,243	\$4,084,194	\$3,855,722	\$7,566,436	\$24,024,507
Medicare	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Insurance & Copay	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Federal Programs	\$809,035	\$755,808	\$1,054,862	\$1,389,920	\$1,192,401	\$1,221,623	\$1,167,693	\$7,591,341
Judgments and Settlements	\$0	\$0	\$0	\$0	\$0	\$0	\$2,032,070	\$2,032,070
Space Rental	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Local Revenue	\$0	\$468,250	\$476,559	\$572,211	\$580,132	\$1,069,517	\$1,152,343	\$4,319,011
Emergency Earthquake	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Interest Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Revenue	\$1,858	\$1,820	\$5,273	\$3,180	\$187	\$241,147	\$222,300	\$475,765
Total Revenue	\$42,034,011	\$43,253,568	\$43,907,734	\$45,961,464	\$52,790,922	\$50,965,711	\$41,639,841	\$320,553,251
Expense								
Community-Based Programs								
Catholic Comm Svcs	\$2,194,704	\$3,172,174	\$5,105,272	\$5,697,710	\$5,320,032	\$5,759,716	\$5,209,716	\$32,459,324
Comprehensive MH Center	\$13,099,102	\$14,691,642	\$15,471,202	\$12,256,950	\$12,024,529	\$11,834,466	\$10,319,423	\$89,697,315
Good Samaritan	\$8,198,159	\$9,483,996	\$10,724,666	\$7,988,226	\$8,212,905	\$7,789,652	\$6,941,524	\$59,339,128
Greater Lakes	\$10,252,451	\$12,204,817	\$14,143,866	\$10,523,731	\$10,672,425	\$10,097,588	\$9,084,063	\$76,978,941
Puyallup Tribe	\$362,503	\$399,667	\$426,721	\$422,595	\$421,219	\$421,218	\$397,795	\$2,851,718
Sea Mar	\$168,907	\$97,271	\$119,085	\$120,720	\$120,720	\$120,720	\$104,700	\$852,122
Other Community Provider	\$555,010	\$573,292	\$677,551	\$450,166	\$292,047	\$329,065	\$373,002	\$3,250,131
Subtotal	\$34,830,835	\$40,622,860	\$46,668,363	\$37,460,098	\$37,063,877	\$36,352,425	\$32,430,222	\$265,428,679
RSN Programs								
Care Management	\$220,318	\$213,736	\$274,426	\$441,272	\$433,846	\$483,859	\$528,800	\$2,596,257
Ombuds and QRT	\$100,381	\$81,137	\$83,679	\$52,887	\$43,198	\$57,322	\$68,603	\$487,208
ITA Judicial	\$2,091,382	\$1,262,697	\$1,931,310	\$1,557,593	\$898,831	\$869,359	\$1,006,417	\$9,617,588
Crisis Services	\$930,801	\$915,996	\$2,096,979	\$3,607,800	\$3,962,355	\$4,304,784	\$4,096,909	\$19,915,624
Jail-Based Services	\$840,007	\$970,630	\$797,183	\$572,211	\$731,296	\$788,757	\$805,903	\$5,505,987
Subtotal	\$4,182,890	\$3,444,196	\$5,183,576	\$6,231,763	\$6,069,526	\$6,504,082	\$6,506,632	\$38,122,664
RSN Administration	\$1,829,300	\$1,864,266	\$2,395,847	\$2,323,671	\$2,597,206	\$2,557,336	\$3,005,965	\$16,573,590
Total Programs and Administration	\$40,843,024	\$45,931,322	\$54,247,785	\$46,015,532	\$45,730,608	\$45,413,843	\$41,942,819	\$320,124,934
Excess (Deficit)	\$1,190,987	-\$2,677,754	-\$10,340,051	-\$54,068	\$7,060,314	\$5,551,868	-\$302,978	\$428,317

	1999	2000	2001	2002	2003	2004	2005	Total
Puget Sound Behavioral Health Inpatient Services & Overhead								
Revenue								
Medicaid		\$2,064,977	\$8,793,684	\$9,703,949	\$6,892,777	\$8,536,146	\$5,667,382	\$41,658,916
Medicare		\$58,261	\$1,843,231	\$2,510,493	\$2,107,417	\$3,810,236	\$3,333,216	\$13,662,854
Insurance & Copays		\$563,339	\$1,393,366	\$1,219,922	\$1,102,870	\$1,044,192	\$1,304,523	\$6,628,213
State Funding							\$1,212,664	\$1,212,664
TANF Settlement					\$1,690,757			\$1,690,757
Emergency Earthquake			\$3,804,026	\$529,791				\$4,333,817
Local Revenue					\$1,250,000			\$1,250,000
Other Revenue	\$0	\$38,896	\$97,941	\$142,971	-\$57	\$782,972	\$343,992	\$1,406,716
Total	\$0	\$2,725,473	\$15,932,249	\$14,107,126	\$13,043,765	\$14,173,546	\$11,861,778	\$71,843,937
Operating Expenses								
MH Inpatient Services		\$2,456,129	\$8,127,287	\$8,256,602	\$8,971,943	\$9,227,205	\$9,267,004	\$46,306,170
Overhead Expenses	\$0	\$2,328,793	\$6,461,502	\$4,872,350	\$3,899,235	\$3,799,168	\$3,473,769	\$24,834,817
Total	\$0	\$4,784,922	\$14,588,789	\$13,128,952	\$12,871,178	\$13,026,373	\$12,740,773	\$71,140,987
Excess (Deficit)	\$0	-\$2,059,449	\$1,343,460	\$978,175	\$172,586	\$1,147,174	-\$878,996	\$702,949
Puget Sound Behavioral Health Non-MH Services								
Revenue All Sources	\$0	\$880,508	\$1,824,392	\$241,538	\$73,141	\$87,561	\$243,052	\$3,350,192
Non-MH Services Expenses	\$0	\$1,724,352	\$4,239,581	\$1,057,871	\$266,006	\$253,822	\$265,483	\$7,807,115
Excess (Deficit)	\$0	-\$843,844	-\$2,415,189	-\$816,333	-\$192,865	-\$166,261	-\$22,431	-\$4,456,923
PSBH/Human Service Building Capital Expenditures								
PSBH Purchase Expenditures	\$0	\$2,460,904	\$19,084	\$0	\$0	\$0	\$0	\$2,479,988
Capital Projects Expenditures	\$0	\$0	\$0	\$0	\$0	\$622,640	\$211,047	\$833,687
Excess (Deficit)	\$0	-\$2,460,904	-\$19,084	\$0	\$0	-\$622,640	-\$211,047	-\$3,313,675
Professional Office Building Management								
Revenue All Sources	\$0	\$283,019	\$376,556	\$218,255	\$153,581	\$134,033	\$321,567	\$1,487,011
Office Building Expenses	\$0	\$391,644	\$697,035	\$415,271	\$297,350	\$305,428	\$344,728	\$2,451,456
Excess (Deficit)	\$0	-\$108,625	-\$320,479	-\$197,016	-\$143,769	-\$171,395	-\$23,161	-\$964,445
All Services Excess (Deficit)	\$1,190,987	-\$8,150,575	-\$11,751,343	-\$89,242	\$6,896,265	\$5,738,746	-\$1,438,613	-\$7,603,776
Funding Transfers								
RSN To PSBH	\$0	-\$3,505,237	-\$509,709	\$0	-\$350,000	\$0	-\$350,000	-\$4,714,946
RSN To Reserves	\$0	\$0	\$0	-\$2,000,000	\$0	\$0	-\$1,125,000	-\$3,125,000
Reserves to PSBH	\$0	\$3,505,237	\$940,460	\$0	\$0	\$0	\$1,475,000	\$5,920,698
Net Transfers	\$0	\$0	\$430,752	-\$2,000,000	-\$350,000	\$0	\$0	-\$1,919,248
Excess (Deficit) after Transfers	\$1,190,987	-\$8,150,575	-\$11,320,591	-\$2,089,242	\$6,546,265	\$5,738,746	-\$1,438,613	-\$9,523,024
Ending Fund Balance	\$15,988,225	\$7,837,649	-\$3,482,942	-\$5,572,184	\$974,081	\$6,712,827	\$5,274,214	\$5,274,214

Attachment E – Western State Hospital Census Reduction Scenarios

The following four scenarios project differing levels of potential success in reducing the Western State Hospital census over the next twelve months.

Scenario 1: Medium Drop in Census (3 Beds per Month)								
Month	Projected Census	Prior Mo Change	Prior Mo Change	Allocation	Over (Under) Alloc	Over (Under) Bed Days	Current Rate	Monthly Est. Pmt
Jul-06	221.00	(12.67)	-5.42%	159	62.00	1,922	\$414.47	
Aug-06	218.00	(3.00)	-1.36%	159	59.00	1,829	\$414.47	
Sep-06	215.00	(3.00)	-1.38%	166	49.00	1,519	\$414.47	\$629,537
Oct-06	212.00	(3.00)	-1.40%	166	46.00	1,426	\$414.47	\$590,991
Nov-06	209.00	(3.00)	-1.42%	166	43.00	1,333	\$414.47	\$552,446
Dec-06	206.00	(3.00)	-1.44%	173	33.00	1,023	\$414.47	\$423,960
Jan-07	203.00	(3.00)	-1.46%	173	30.00	930	\$414.47	\$385,414
Feb-07	200.00	(3.00)	-1.48%	173	27.00	837	\$414.47	\$346,869
Mar-07	197.00	(3.00)	-1.50%	173	24.00	744	\$414.47	\$308,323
Apr-07	194.00	(3.00)	-1.52%	173	21.00	651	\$414.47	\$269,777
May-07	191.00	(3.00)	-1.55%	173	18.00	558	\$414.47	\$231,231
Jun-07	188.00	(3.00)	-1.57%	173	15.00	465	\$414.47	\$192,686
Total	204.50	(45.67)	-19.5%	173	31.50	13,236	\$414.47	\$3,931,234

Scenario 2: Medium-High Drop in Census (5 Beds per Month)								
Month	Projected Census	Prior Mo Change	Prior Mo Change	Allocation	Over (Under) Alloc	Over (Under) Bed Days	Current Rate	Monthly Est. Pmt
Jul-06	219.00	(14.67)	-6.28%	159	60.00	1,860	\$414.47	
Aug-06	214.00	(5.00)	-2.28%	159	55.00	1,705	\$414.47	
Sep-06	209.00	(5.00)	-2.34%	166	43.00	1,333	\$414.47	\$552,446
Oct-06	204.00	(5.00)	-2.39%	166	38.00	1,178	\$414.47	\$488,203
Nov-06	199.00	(5.00)	-2.45%	166	33.00	1,023	\$414.47	\$423,960
Dec-06	194.00	(5.00)	-2.51%	173	21.00	651	\$414.47	\$269,777
Jan-07	189.00	(5.00)	-2.58%	173	16.00	496	\$414.47	\$205,534
Feb-07	184.00	(5.00)	-2.65%	173	11.00	341	\$414.47	\$141,291
Mar-07	179.00	(5.00)	-2.72%	173	6.00	186	\$414.47	\$77,049
Apr-07	174.00	(5.00)	-2.79%	173	1.00	31	\$414.47	\$12,806
May-07	169.00	(5.00)	-2.87%	173	(4.00)	(124)	\$414.47	\$0
Jun-07	164.00	(5.00)	-2.96%	173	(9.00)	(279)	\$414.47	\$0
Total	191.50	(69.67)	-29.8%	173	18.50	8,400	\$414.47	\$2,171,066

Scenario 3: High Drop in Census (7 Beds per Month)								
Month	Project- ed Census	Prior Mo Change	Prior Mo Change	Allo- cation	Over (Under) Alloc	Over (Under) Bed Days	Current Rate	Monthly Est. Pmt
Jul-06	217.00	(16.67)	-7.13%	159	58.00	1,798	\$414.47	
Aug-06	210.00	(7.00)	-3.23%	159	51.00	1,581	\$414.47	
Sep-06	203.00	(7.00)	-3.33%	166	37.00	1,147	\$414.47	\$475,354
Oct-06	196.00	(7.00)	-3.45%	166	30.00	930	\$414.47	\$385,414
Nov-06	189.00	(7.00)	-3.57%	166	23.00	713	\$414.47	\$295,474
Dec-06	182.00	(7.00)	-3.70%	173	9.00	279	\$414.47	\$115,594
Jan-07	175.00	(7.00)	-3.85%	173	2.00	62	\$414.47	\$25,654
Feb-07	173.00	(2.00)	-1.14%	173	(0.00)	(0)	\$414.47	\$0
Mar-07	173.00	0.00	0.00%	173	(0.00)	(0)	\$414.47	\$0
Apr-07	173.00	0.00	0.00%	173	(0.00)	(0)	\$414.47	\$0
May-07	173.00	0.00	0.00%	173	(0.00)	(0)	\$414.47	\$0
Jun-07	173.00	0.00	0.00%	173	(0.00)	(0)	\$414.47	\$0
Total/Avg	186.41	(60.67)	-26.0%	173	13.41	6,509	\$414.47	\$1,297,491

Scenario 4: Highest Drop in Census (10 Beds per Month)								
Month	Projected Census	Prior Mo Change	Prior Mo Change	Allo- cation	Over (Under) Alloc	Over (Under) Bed Days	Current Rate	Monthly Est. Pmt
Jul-06	208.00	(25.67)	-10.99%	159	49.00	1,519	\$414.47	
Aug-06	198.00	(10.00)	-4.81%	159	39.00	1,209	\$414.47	
Sep-06	188.00	(10.00)	-5.05%	166	22.00	682	\$414.47	\$282,626
Oct-06	178.00	(10.00)	-5.32%	166	12.00	372	\$414.47	\$154,140
Nov-06	168.00	(10.00)	-5.62%	166	2.00	62	\$414.47	\$25,654
Dec-06	168.00	0.00	0.00%	173	(5.00)	(155)	\$414.47	\$0
Jan-07	168.00	0.00	0.00%	173	(5.00)	(155)	\$414.47	\$0
Feb-07	168.00	0.00	0.00%	173	(5.00)	(155)	\$414.47	\$0
Mar-07	168.00	0.00	0.00%	173	(5.00)	(155)	\$414.47	\$0
Apr-07	168.00	0.00	0.00%	173	(5.00)	(155)	\$414.47	\$0
May-07	168.00	0.00	0.00%	173	(5.00)	(155)	\$414.47	\$0
Jun-07	168.00	0.00	0.00%	173	(5.00)	(155)	\$414.47	\$0
Total/Avg	176.33	(65.67)	-28.1%	173	3.33	2,758	\$414.47	\$462,420

Our current estimates project non-Medicaid charges to Pierce County of between \$462,000 (Scenario 4) and \$3.9 million (Scenario 1) during Fiscal Year 2007 - if the County and community provider system are able to make a substantial impact on the census.

Attachment F – Quality Improvement Based Ground Rules for System Collaboration

The following ground rules should be considered for adoption as part of the new working relationship between the RSN and provider agencies.

- All decisions will be made in an environment of transparency and collaboration
- Create a collaborative approach and “no blame” environment
- Acknowledge where we cannot be collaborative due to our roles
- Work at understanding one another’s perspectives
- Honor one another’s intrinsic roles and responsibilities
- Acknowledge the dynamic tensions in the system and seek ways to manage these
- Develop mechanisms for accountability at all levels of the system
- Celebrate successes as well as focus on areas for improvement
- Involve consumers and advocates in the process
- Keep things simple and doable; don’t add complexity to what we must do to meet state and federal requirements
- Maintain a sustained focus over time that balances service delivery and quality management
- Prioritize and, when adding something, look at what can be taken away
- Track information reliably, with data that has integrity
- Make decisions based on data

Attachment G

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To: Matt Temmel

Date: July 3, 2006

From: Dale Jarvis, CPA

Re.: RSN Fund Balance

This memo provides updated Fund Balance information that was requested by the Pierce County RSN Board at the June 30th Board Meeting.

December 31, 2005 RSN Fund Balance: All parties are in agreement that the RSN fund balance at 12/31/2005 was **\$5,274,203**.

June 30, 2006 RSN Fund Balance: The following comments are important to pass along regarding the 6/30/2006 fund balance:

- All fund balance figures that have been provided to the RSN Board for June 30, 2006 are *rough estimates* that will likely change in the next 30 to 60 days as the books are closed for the month and figures are updated.
- The fund balance figure of **\$3,536,035** that was presented by the RSN staff at the last board meeting is an estimate based on doubling the revenues and expenses for the period January 1 – March 31, 2006 to arrive at an estimated Deficit for the period January 1 – June 30, 2006, which was subtracted from the December 31, 2005 Fund Balance to arrive at an estimated June 30, 2006 Fund Balance.

December 31, 2005 Fund Balance	\$5,274,203
January – June 2006 Deficit	<u>(\$1,738,168)</u>
June 30, 2006 Fund Balance	\$3,536,035

- This figure appears to be the most accurate Fund Balance amount currently available.

Fund Balance in the Performance Audit Report: The \$4,588,857 on page 10 of the audit report should be reduced by approximately \$1 million, and replaced with the **\$3,536,035** amount until more accurate figures are available. The drop in fund balance between the June 15th performance audit report and the current figure is due to the following:

- RSN accounting staff provided information for the performance audit pertaining to January – June 2006 Revenues and Expenses in two sets of figures labeled “Fund 114” (PSBH) and “Fund 115” (RSN). Following the same methodology used for 1999 – 2005 data, MCPP Healthcare Consulting combined the two sets of numbers to arrive at one RSN-wide total. However, I learned today that the amounts in “Fund 114” also include “Fund 115” amounts, which resulted in a double counting of Fund 115 revenues and expenses.
- Since June 15th, the RSN staff has adjusted Inpatient Hospital Reconciliation figures to provide more accurate inpatient costs for January through June. This contributed to \$584, 202 of the \$1 million change listed above.

Reserve Requirements: After discussion this morning between RSN staff and MCPP Healthcare Consulting, we agree that of the \$3.5 million fund balance total, only \$1.6 million must be earmarked as Medicaid Risk Reserve. The state draft contract for 9/1/2006 does *not* require the remaining \$1.9 million fund balance to be placed in reserves. However, it does allow up to a maximum of an additional \$2.4 million to be added as an Operating Reserve by official action of the RSN Board.