

Puget Sound Behavioral Health

Performance Review

Pierce County Performance Audit Committee

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Submitted by

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EXECUTIVE SUMMARY

Puget Sound Behavioral Health (PSBH), located in Tacoma, Washington, is a 43-bed inpatient mental health facility owned and operated by Pierce County. The county acquired the facility in 2000 after Puget Sound Hospital went into bankruptcy. In October 2002 MCPP Healthcare Consulting began a Performance Review of Puget Sound Behavioral Health, pursuant to Pierce County Council Ordinance 2002-78s.

The project was completed within a very short timeframe, due in large part to the cooperation of PSBH and Pierce County Regional Support Network (RSN) staff. Staff members responded in a professional and helpful manner, attending over two-dozen interviews and meetings and providing more than 1,000 pages of documentation. Staff made numerous suggestions, many of which became findings and recommendations for this report.

This executive summary presents an overview of the Performance Review's findings and recommendations, followed by a synopsis of each of the 18 findings and 14 recommendations, sorted into three parts. The full report and attachments that follow provide additional detail and explanation.

Overview of Findings and Recommendations

PSBH has gone through many changes and has faced a number of challenges since the acquisition in 2000. These circumstances have taxed the financial resources of the Pierce County Regional Support Network (RSN) and have been a source of significant pressure for the hospital staff. During the seven-quarter period between January 2001 and September 2002, non-RSN activities at PSBH required an RSN subsidy of \$3.7 million (Finding II.g.). During the nine-month period between January and September 2002, the RSN also subsidized \$2.2 million of non-Medicaid inpatient mental health services at the hospital (Finding II.h.). The subsidies have come at a time when state mental health funding to Pierce County has been cut, as a result of two Washington State Mental Health Division reallocation decisions (Finding I.c.).

In January through September 2002 the PSBH average cost per day was \$912.13 or nearly 50% greater than the median for a group of 123 benchmarked hospitals. PSBH was also below the 50th percentile in eight out of the thirteen additional performance measures that were analyzed (Finding III.a.). An overall recommendation from this performance review is that PSBH should take a series of actions to reduce the cost per day by 25.5%, to \$680 in 2003. While slightly above the inflation-adjusted benchmark median of \$640, this is a realistic, although challenging target. Recommendations 4 – 14 provide direction and advice for how to achieve this goal, including a change in the PSBH management structure (Recommendation 5).

If PSBH, with the assistance of Pierce County and the RSN, is able to implement these recommendations in 2003, the hospital should continue to be owned and operated by Pierce County, but the RSN should not increase bed size by any substantial number

(Recommendation 1). Even with these changes, a preliminary RSN budget analysis (*Attachment D*) shows that a 21% cut will be needed in outpatient and other community services and RSN administration, between 2003 and 2005 (Finding I.d.). With the shortage of reserves and difficult funding environment, there is little margin for error. Work should begin immediately to implement these recommendations.

Part I. Review of Puget Sound Behavioral Health as Part of the Continuum of Care in the Pierce County Regional Support Network

Finding I.a. Puget Sound Behavioral Health is an Important Resource in Pierce County and the South Puget Sound. Because of a limited number of psychiatric beds in Pierce County and the South Sound, PSBH plays an important role in meeting the inpatient mental health needs of the community. If the Pierce County RSN had not stepped in to stop the closing of Puget Sound Hospital in 2000, it is unlikely that the RSN would have found an adequate number of replacement beds.

Finding I.b. Total Inpatient Expenditures and Cost per Day have been Increasing in Pierce County. In calendar year 2001 Pierce County's Western State Hospital usage decreased by over 10,000 bed days and expenses decreased by \$4.3 million when compared with fiscal year 1999. During the same time period RSN Community Hospital bed days (including PSBH) increased by 1,897, related costs increased \$5.6 million, and Community Hospital cost per day increased significantly from \$344.79 to an average of \$715.20.

Finding I.c. Pierce County Mental Health Funding is in a Downward Spiral. The Pierce County mental health funding environment is in a downward spiral. The Western State Hospital downsizing between 2002 and 2005 will result in an average loss of nearly 20,000 bed days per year valued at nearly \$10 million per year. In addition, the Washington State Mental Health Division's statewide reallocation process will result in Pierce County cuts of \$644,000 in Fiscal Year 2002. The cuts will grow to \$3.7 million in Fiscal Year 2007 and each year thereafter.

Finding I.d. Current Funding and Expenditure Trends May Make it Difficult for Pierce County to Meet Basic Mental Health Needs in the Community. A *preliminary analysis* shows that, under optimal conditions a 21% cut in outpatient and other community services and RSN administration will be required between 2003 and 2005. This is a *best-case scenario* in which PSBH costs are brought down close to the benchmark median described in Part III of this report.

Recommendation 1 - Retain Puget Sound Behavioral Health as a 43-Bed Inpatient Resource for Pierce County Residents. Puget Sound Behavioral Health should continue to be owned and operated by Pierce County, *if the recommendations in Parts II and III are implemented.* Unless the funding situation changes dramatically, the RSN should not increase PSBH beds by any substantial number. The RSN should focus any future bed growth on the development and funding of less intensive and less expensive beds such as secure

residential, supported housing, and subsidized housing, whose costs run between \$50 and \$350 per day.

Recommendation 2 - Develop a Three-Year Plan for Addressing State Mental Health Revenue Reductions and Shifting Service Demand. The Pierce County RSN should develop a Three-Year Resource Allocation Plan that projects demand for all mental health services and identifies how funding cuts should be prioritized. Specific attention should be given to ensuring that clients can be served in the most cost effective and least restrictive setting.

Recommendation 3 - Continue to Pursue Relief from the Mental Health Division and the Legislature relating to the Western State Hospital Bed and RSN Funding Reallocations. The Pierce County RSN officials should continue to pursue remedies with the Mental Health Division and the Legislature and prepare a data-driven analysis of Western State Hospital and RSN funding allocations that considers the recent prevalence work done in Washington and Oregon.

Part II. Review of Puget Sound Behavioral Health's Overall Operations

Finding II.a. Puget Sound Behavioral Health has Made Significant Progress under Difficult Conditions. The PSBH management team has successfully concentrated on closing money-losing services as well as gaining accreditations and certifications to increase PSBH's billing and reimbursement status. The large number of challenges faced in such a short period of time created a fragile and unstable environment for management and staff, and the organization is just now getting to the point where it has the potential to become viable and stable.

Finding II.b. The Pierce County Fund Accounting Structure for PSBH has Created Confusion about the Cost of PSBH Inpatient Services. The PSBH departments should be considered as four distinct components: Inpatient Mental Health Services, Tenant Services, Other Services, and Overhead Departments. Prior to this Performance Review, these four components were grouped together as one. This resulted in instances where stakeholders mistakenly overstated cost per patient day. In addition, combining these cost centers into one made it difficult to evaluate RSN subsidization of non-inpatient programs.

Finding II.c. The RSN Model for Funding PSBH Does Not Support Operating Efficiencies. Currently the Pierce County RSN funds PSBH through a grant-in-aid type monthly allocation process, regardless of the number of bed days or other service levels. These funds have been used to support inpatient mental health for RSN-responsible clients along with several other activities. This payment method makes it very difficult to understand what the RSN is actually buying and hinders hospital managers in managing the revenues and expenses for their departments.

Finding II.d. PSBH is Lacking in Key Financial and Utilization Management Systems. While some financial and utilization reports are available, PSBH managers

lack the financial and utilization management systems required to monitor a number of key performance indicators.

Finding II.e. PSBH has a Management Structure that Inhibits its Ability to Operate at Maximum Efficiency. PSBH, as an operating unit within the Pierce County RSN, puts the RSN in the potentially conflicting roles of mental health system manager and major provider of care. In other communities that face this problem, structures are put in place to create some degree of arms-length relationship between the two roles. A related concern is that various oversight roles at PSBH have been delegated to multiple managers, many of whom have a variety of other responsibilities. There is no single, full-time hospital manager who has been charged with overall financial and clinical responsibility and authority for the hospital.

Finding II.f. PSBH's Efficiency is Adversely Impacted by Pierce County Human Resource Policies and Procedures. Pierce County human resource policies and procedures restrict some of the staffing practices normally used by hospitals to create flexible staffing patterns that are more cost effective. Specifically, the PSBH labor costs and staffing model could be improved by: a) allowing for shift and weekend differentials, and b) changing the extra hire policy that constrains the ability to create float pools for part-time nursing staff. Unless these issues are addressed, it will continue to be difficult for PSBH to come into line with a number of benchmark indicators described in Part III.

Finding II.g. The Pierce County RSN has Subsidized Non-RSN Activities at PSBH. Since the purchase of PSBH in 2000, the RSN has provided substantial subsidies to non-RSN activities. Between January 2001 and September 2002, Chemical Dependency and Detox Programs required a subsidy of \$1.1 million; Medical Emergency Room Services required a subsidy of \$1.8 million; Soundview Medical Plaza required a subsidy of approximately \$600,000; and Cafeteria Operations required a subsidy of approximately \$200,000.

Finding II.h. The Pierce County RSN has Subsidized Non-Medicaid Inpatient Mental Health Services. During the period of January through September 2002, PSBH provided 6,042 days of inpatient mental health service to Medicare, Private Insurance, and Self-Pay residents of Pierce County as well as a small number of Medicaid enrollees from other Regional Support Networks. During this period, costs exceeded revenue, resulting in a nine-month subsidy of approximately \$2.2 million.

Finding II.i. Puget Sound Behavioral Health Facilities Require Substantial Capital Investment. PSBH management engaged one of the leading architectural firms in the Northwest, Callison Architecture, to complete a facilities plan for the hospital and a long-range master plan for the Department of Human Services. Because of the age of the PSBH physical plant and deficiencies related to psychiatric patient safety, substantial capital investment will be required in the near future. Current reserves are inadequate to fund these projects.

Recommendation 4 - Change the Pierce County RSN Model for Funding Puget Sound Behavioral Health. The Pierce County RSN should revise the

funding model for Puget Sound Behavioral Health to ensure that the payment per day is reasonable and comparable with other payors. One approach would be to implement a Negotiated Per Diem Rate in 2003 of \$680, inclusive of facility costs and professional fees. This should be accompanied by a one-time contingency reserve for PSBH for 2003 to aid in the transition to the lower rate.

Recommendation 5 - Revise the Management Structure of Puget Sound Behavioral Health. Pierce County should create a Chief of Hospital Services position, responsible for all aspects of Puget Sound Behavioral Health clinical management, financial and utilization management and support operations for the hospital. The county should also create a Financial Administrator position that will be directly responsible for all financial and utilization management efforts and serve on the hospital's Leadership Team. The PSBH management structure should be altered so that these positions do not increase the management and supervisory full time equivalents at PSBH. Finally, the role of the Regional Support Network Manager should be revised so that a more arms-length relationship is created between this position and the oversight of hospital operations.

Recommendation 6 - Change the Management Oversight of the Soundview Medical Plaza. The Soundview Medical Plaza and the related Off-Site Radiology service should be transferred out of the PSBH fund and into the Department of Human Services. A three-year business plan should be developed to assess whether the operations can break even in 2003 and remain financially viable for 2004 and 2005. If financial viability cannot be demonstrated, Pierce County should pursue selling the building.

Recommendation 7 - Increase the Flexibility of Pierce County's Human Resources Policies and Procedures. Pierce County should work with PSBH management to provide: a) hospital industry-standard flexibility related to allowances for shift and weekend differentials, and b) the ability to create float pools for part-time nursing staff to further reduce agency costs.

Recommendation 8 - Continue Revenue Enhancement Activities. PSBH staff should complete a revenue enhancement study to identify areas of under-billing and develop quality-improvement strategies to correct existing problems. If it is determined that services provided in specific locations are not reimbursable, PSBH should consider eliminating or significantly reducing those services.

Recommendation 9 - Implement a Management Control Process. PSBH should expand the existing Pierce County budgeting and reporting process into a formal Management Control Process that includes: a) pushing more responsibility and authority for specific hospital departments and units down to supervisors and managers, b) developing budgeting tools that managers and supervisors will be trained on so they can prepare their own budgets, and c) developing a set of standard reports that allow supervisors and managers to monitor key metrics on a daily, weekly, and monthly basis.

Recommendation 10 - Pursue Capital Improvements and Build the Expenditures into the Cost per Day Budget Projections. PSBH should consider working with Pierce County to issue 15-year Revenue Bonds to fund necessary capital improvements at the facility. This recommendation is projected to increase the cost per day by \$36, which will need to be offset by additional reductions in other overhead areas.

Part III. Review of Puget Sound Behavioral Health’s Inpatient Services

Finding III.a. Puget Sound Behavioral Health is below the 50th Percentile in Nine out of Fourteen Performance Measures. Puget Sound Behavioral Health’s performance was benchmarked against 123 hospitals that had between 25 and 75 psychiatric beds.

Ranking Method: The ranking method used for the analysis gives a score of 1 to the lowest performing hospital and the largest number to the highest performing facility. For example, when PSBH cost per day is compared with 79 facilities and given a rank of 10, this denotes that PSBH was 10th from the bottom and scored poorly.

Percentile Method: The bottom ranking hospital on a given indicator would receive a Percentile score of 0%, and the top ranking hospital would receive a Percentile score of 100%. In the example above, when PSBH ranked 10th out of 79 it fell into the 12th Percentile, a low performing score. If PSBH had ranked 40th in the field of 79, it would have been at the median, or 50th Percentile.

Table 1: Benchmark Summary

Indicator	Facilities	Average	Median	2002 PSBH	PSBH	PSBH
					Rank #	Percentile
					(Low performing to High performing)	
1 Average Length of Stay	122	13.27	11.14	10.41	80	65%
2 Cost per Patient Day	79	\$656.17	\$611.47	\$912.13	10	12%
3 Cost per Admit/Discharge	79	\$8,769	\$6,811	\$9,499	20	24%
4 Direct Cost per Patient Day	27	\$434.62	\$388.81	\$496.20	7	23%
5 Payroll Expense per Patient Day	77	\$332.69	\$308.52	\$293.57	50	64%
6 Employee Benefits per Patient Day	77	\$70.89	\$62.25	\$66.29	33	42%
7 Clinical Professional Fees per Patient Day	15	\$75.00	\$45.33	\$121.56	2	7%
8 Other Professional Fees per Patient Day	18	\$34.39	\$23.65	\$6.27	14	76%
9 Supplies per Patient Day	27	\$26.66	\$19.45	\$5.43	23	85%
10 Overhead Expense per Patient Day	10	\$278.79	\$270.90	\$415.92	1	0%
11 Clinical Staff Hours per Patient Day	108	5.41	3.47	9.20	10	8%
12 Medical Hours per Patient Day	83	0.50	0.47	1.12	4	4%
13 Nursing Hours per Patient Day	115	4.12	3.00	3.45	33	28%
14 Total Staff Hours per Patient Day	117	19.02	15.36	10.72	101	86%

Sources: American Hospital Association, Washington Center for Health Statistics, California Office of Statewide Health Planning and Development

Finding III.b. Puget Sound Behavioral Health Management has Taken Action to Improve Performance. PSBH leadership has identified and implemented a number of changes to improve financial performance and clinical operations, which involved terminating or reducing several contracts, eliminating several positions, and implementation of new systems such as the PYXIS Medication Dispensing System.

Finding III.c. Puget Sound Behavioral Health has an Innovative Clinical Program Design that Requires a High Use of Mental Health Clinicians. PSBH has developed a Learning Center based on the Hope and Recovery Model that utilizes space separate from the inpatient units to provide intensive mental health treatment to inpatient clients. While this is an important and innovative program, it is also expensive and a major reason why total clinical hours per day are in the 8th Percentile.

Finding III.d. Inpatient Dietary Costs at Puget Sound Behavioral Health are Higher than Market Rates. Direct costs for the PSBH Dietary department between January and September 2002, excluding nutrition assessments, were \$11.25 per meal. This compares with an average cost per meal of \$3.65 at a comparable facility in Seattle, which contracts its meal services to a third party.

Finding III.e. Pierce County Indirect Expenses are a Large Component of PSBH Overhead. In January through September 2002, PSBH's overhead expense per day of \$415.92 was comprised of \$89.20 of Pierce County indirect allocations and \$326.73 of PSBH expenses. The total overhead cost per day is 54% above the \$270.90 median for the benchmark group. PSBH will not be able to achieve a reasonable cost per day without getting these costs under control.

Recommendation 11 - Increase the Occupancy Rate. PSBH should take actions to achieve the budgeted 2003 occupancy rate of 95% (41 out of 43 beds). If 2003 bed day projections suggest that the demand in some periods will result in fewer than 41 beds, PSBH should approach nearby Regional Support Networks and other health plans to "market" their services.

Recommendation 12 - Evaluate and Reduce Clinical Staffing Costs and Ratios. PSBH Management should complete studies that would evaluate the clinical impact and operational feasibility of: reducing: a) contracted physician costs by 50%, b) nursing registry costs by 50%, and c) Mental Health Clinician staffing costs by 20%.

Recommendation 13 - Evaluate Make or Buy for Dietary. PSBH should complete a cost/benefit analysis of procuring patient meals through a purchase-of-service contract with a third party.

Recommendation 14: Reduce Overhead Costs. PSBH management should complete a study that would evaluate the operational feasibility of reducing the other overhead costs by 25%.

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INTRODUCTION

Puget Sound Behavioral Health (PSBH), located in Tacoma Washington, is a 43-bed inpatient mental health facility owned and operated by Pierce County. The county acquired the facility in 2000 after Puget Sound Hospital went into bankruptcy. The 2003 budget for PSBH is \$15.7 million and includes 170 full-time-equivalent staff.

In October 2002 MCPP Healthcare Consulting began a Performance Review of Puget Sound Behavioral Health, pursuant to Pierce County Council Ordinance 2002-78s. Under the guidance of the Performance Audit Committee, the consultants were directed to:

- Prepare a Benchmark Report, comparing PSBH with comparable facilities in the United States.
- Complete a Clinical and Operational Evaluation of the PSBH facility that identifies the root causes related to specific areas of sub par-performance.
- Develop Three-Year Financial and Utilization Projections that detail the financial condition of the Pierce County RSN if state funding reductions are completed and discharged Western State Hospital clients are transferred to community-based services; and if PSBH succeeds at implementing the recommendations in this report.
- Draft a set of Findings and Recommendations that identify key areas of performance improvement and steps to move PSBH to the 50th percentile or better of cohort facilities.

The project was completed within a very short timeframe, due in large part to the cooperation of PSBH and Pierce County Regional Support Network (RSN) staff. Staff members responded in a professional and helpful manner, attending over two-dozen interviews and meetings and providing more than 1,000 pages of documentation. Staff made numerous suggestions, many of which became findings and recommendations for this report.

The body of this report contains the Findings and Recommendations related to the objectives of the project. **Attachment A** shows the PSBH cost per day analysis. **Attachment B** contains the detailed results of the Benchmark Report. **Attachment C** comprises the written summary of the Clinical and Operational Evaluation. **Attachment D** presents the Three-Year Financial and Utilization Projections.

PERFORMANCE REVIEW METHODOLOGY

The methodology for this Performance Review included three major components:

1. Benchmarking Puget Sound Behavioral Health's Performance Against Peer Hospitals

Being able to compare key PSBH performance indicators against those of other hospitals was critical to gaining an understanding of the organization's strengths and weaknesses. PSBH is a facility that straddles the line between an acute hospital and an evaluation and treatment facility. Being located in Washington State, it is in a setting with minimal psychiatric bed capacity and thus few nearby peers. MCPP Healthcare Consulting determined that the most useful comparative data were from 25 – 75 bed psychiatric hospitals throughout the country, along with a small group of Washington State acute care hospitals that provide more than 200 psychiatric admissions per year.

2. Collection and Analysis of Puget Sound Behavioral Health's Internal Utilization, Revenue, and Expense Data

PSBH has accumulated a wealth of information in its hospital billing system, the Pierce County payroll system, the general ledger, and a series of internal financial and utilization reports. These data were collected and organized so that PSBH's benchmark indicators could be derived. In addition, overall Regional Support Network revenues and expenses were collected so that PSBH data could be understood within the context of the larger, county mental health system.

3. Onsite Evaluation of Puget Sound Behavioral Health's Clinical and Operational Systems

It was important to supplement data collection and analysis with onsite interviews of key clinical and operations staff at PSBH and the RSN and to observe daily workflows. This work allowed the consultants to gain an in-depth understanding of PSBH's performance in relation to the benchmark group. Follow-up meetings were also used to test hypotheses and refine the report's recommendations.

FINDINGS AND RECOMMENDATIONS

Part I. Review of Puget Sound Behavioral Health as Part of the Continuum of Care in the Pierce County Regional Support Network

Pierce County, like other communities, requires a continuum of care to help ensure that mental health consumers receive timely and appropriate care. This continuum should include the following services:

Early Identification and Access Services	Crisis and Involuntary Treatment Services	Inpatient Services	Residential Services	Outpatient Services and Case Management	Community and Peer Supports
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The goal of a quality mental health system should be to provide the “right amount” of care at the “right time” – no more and no less. A well functioning system requires adequate funding and careful planning to ensure that the proper balance of each type of service is available. If excess services of a particular type are available, the system will end up paying for unneeded capacity. If insufficient services are available, clients will either not be served in a timely manner or end up with the “wrong” service, both of which can be costly to the system.

It is important to gain an understanding of Pierce County RSN’s balance, with regard to the mental health continuum of care. The Part I Findings and Recommendations contain *four* findings and *three* recommendations relevant to this balance.

Finding I.a. Puget Sound Behavioral Health is an Important Resource in Pierce County and the South Puget Sound

Because of a limited number of psychiatric beds in Pierce County and the South Sound, Puget Sound Behavioral Health plays an important role in meeting the inpatient mental health needs of the community. Between January 2001 and September 2002, PSBH provided over 2,000 inpatient mental health hospital stays, of which 847 were for RSN clients. This represents 29% of all of the psychiatric admissions for Pierce County Medicaid enrollees. During this same period PSBH provided 37% of the admissions for Medicaid enrollees who required admission under the Involuntary Treatment Act.

Table 2: Hospital Stay Data

	January 2001 – September 2002		
	Voluntary	Involuntary	Total
PSBH Total Discharges	1,094	1,002	2,096
<u>RSN-Responsible Discharges</u>			
Puget Sound Behavioral Health	443	404	847
St. Joseph Medical Center	929	18	947
Western State Hospital	67	543	610
St. Francis Hospital	160	-	160
Fairfax Hospital	92	31	123
Harborview Medical Center	23	19	42
Overlake Hospital	37	-	37
All Others	65	81	146
Total	1,816	1,096	2,912
PSBH %	24%	37%	29%

Sources: Pierce County RSN inpatient tracking database; PSBH Discharge Report

If the Pierce County RSN had not stepped in to stop the closing of Puget Sound Hospital in 2000, it is unlikely that the RSN would have found an adequate number of replacement beds. The result, as witnessed in other communities, may have been a significant increase in the use of Western State Hospital, increases of hospital emergency room usage by individuals in crisis, and a large increase in the use of the county jail.

Finding I.b. Total Inpatient Expenditures and Cost per Day have been Increasing in Pierce County

In the state fiscal year that ended June 30, 1999, \$38.8 million was spent on Medicaid and Indigent Inpatient Mental Health Services provided at Western State Hospital and Community Hospitals. This translated into \$55.27 per Pierce County resident per year. During the same year the statewide average was \$30.47 and Pierce County ranked 13th out of 14 among the Regional Support Networks (i.e., second most expensive).

Table 3: Fiscal Year 1998/1999 RSN Hospital Costs

RSN	Community Hospital	State Hospital	Total Hospital	Cost Per Resident	Rank
North Sound	\$3,913,459	\$12,911,227	\$16,824,686	\$18.07	1
Greater Columbia	\$4,296,517	\$7,867,678	\$12,164,195	\$20.94	2
Clark	\$1,640,780	\$5,928,625	\$7,569,404	\$22.46	3
Peninsula	\$1,268,213	\$6,323,866	\$7,592,079	\$23.49	4
Thurston-Mason	\$964,240	\$5,138,141	\$6,102,382	\$24.28	5
Northeast	\$365,674	\$1,311,280	\$1,676,954	\$25.25	6
North Central	\$635,361	\$2,622,559	\$3,257,921	\$26.07	7
King	\$10,888,105	\$32,936,803	\$43,824,908	\$26.13	8
Chelan-Douglas	\$321,812	\$2,294,739	\$2,616,551	\$27.63	9
Southwest	\$907,723	\$2,107,955	\$3,015,679	\$32.05	10
Timberland	\$348,838	\$3,557,175	\$3,906,013	\$41.38	11
Grays Harbor	\$243,647	\$2,766,691	\$3,010,339	\$44.47	12
Pierce	\$4,039,616	\$34,649,517	\$38,689,132	\$55.27	13
Spokane	\$4,667,512	\$20,488,744	\$25,156,256	\$60.69	14
Total	\$34,501,499	\$140,905,000	\$175,406,499	\$30.47	

Source: Washington State Department of Social and Health Services, Mental Health Division

In calendar year 2001 Pierce County's Western State Hospital usage decreased by over 10,000 bed days and expenses decreased by \$4.3 million when compared with fiscal year 1999. This was due to a downsizing of Western State Hospital and the shift of bed days to PSBH after the Nisqually earthquake in February 2001. During the same time period RSN Community Hospital bed days (including PSBH) increased by 1,897 and costs increased \$5.6 million.

Table 4: Changes in Pierce RSN Hospital Costs

	Fiscal Year 1999	Calendar Year 2001	FY1999 to CY2001 Change	FY1999 to CY2001 Change %
Community Hospital Days	11,716	13,613	1,897	16.2%
Western State Hospital Days	86,724	76,063	(10,661)	-12.3%
Total Days	98,440	89,676	(8,764)	-8.9%
Community Hospital Cost	\$4,039,616	\$9,736,061	\$5,696,445	141.0%
Western State Hospital Cost	\$34,649,517	\$30,390,044	-\$4,259,473	-12.3%
Total Cost	\$38,689,132	\$40,126,105	\$1,436,973	3.7%
Community Hospital Cost/Day	\$344.79	\$715.20	\$370.41	107.4%
Western State Cost/Day	\$399.54	\$399.54	\$0.00	0.0%
Average Cost/Day	\$393.02	\$447.46	\$54.43	13.9%

Sources: Pierce County RSN inpatient tracking database; Western State Census Report

Pierce County was able to absorb the majority of the Western State Hospital days through a concerted effort to build community resources, including independent living housing and intensive outpatient programs. At the same time, as Table 4 illustrates, Community Hospital cost per day increased significantly from \$344.79 (fiscal year 1999) to \$715.20 (calendar year 2001). This was due to increased funding for Puget Sound Behavioral Health beginning in 2000 without a similar increase in bed days. Rates for other Community Hospitals in 2001 were comparable with 1999 and admissions to those hospitals increased only 2%.

Finding I.c. Pierce County Mental Health Funding is in a Downward Spiral

The Pierce County mental health funding environment is in a downward spiral due to the Pacific Northwest recession, Washington State budget crisis, and a number of policy decisions made by the Washington State Mental Health Division. Contributing factors include:

- Western State Hospital is continuing to downsize. Combined with the Mental Health Division’s bed reallocation process, this downsizing is reducing Pierce County’s allocation from 213 beds in 2002 to 142 by 2005, a 33% reduction. This is an average loss of nearly 20,000 bed days per year that will need to be absorbed into the community between 2003 and 2005. This represents an average value of nearly \$10 million per year, increasing from \$6.7 million in 2003 to \$12.6 million in 2005 and beyond. The shift represents a direct transfer of liability to the county that will need to be addressed through an increase of hospital days, residential beds days, and intensive outpatient services.

Table 5: Western State Hospital (WSH) Downsizing and Reallocation

	2002	2003	2004	2005
Pierce County RSN WSH Bed Allocation	213	175	158	142
Cumulative Change		-38	-55	-71
Cumulative Change %		-17.8%	-25.8%	-33.3%
Bed Days per Year (Allocation x 365)	77,745	63,875	57,670	51,830
Annual Bed Days Reduction		-13,870	-20,075	-25,915
Fiscal Year 2002 Bed Rate		\$486	\$486	\$486
Cost of Reduced Bed Days		-\$6,740,820	-\$9,756,450	-\$12,594,690
3-Year Average Bed Day Reduction				-19,953
3-Year Average Funding Reduction				-\$9,697,320
3-Year Cumulative Reduction				-\$29,091,960

Source: Pierce County RSN Western State Census Projections

- In 2001 the Washington State Mental Health Division began a statewide reallocation process using a controversial allocation methodology that is shifting funds out of Pierce County. Between July 2001 and June 2007, this will result in a total of \$13 million fewer dollars to the Pierce County RSN. The cuts will grow from \$644,000 in Fiscal Year 2002 to \$3.7 million in Fiscal Year 2007 and thereafter.

Table 6: Mental Health Division Reallocation for Pierce County

	Historical Formula	New Formula	Difference
Pierce RSN Reductions			
Fiscal Year 2002	\$47,928,170	\$47,284,136	-\$644,034
Fiscal Year 2003	\$48,090,900	\$46,816,925	-\$1,273,975
Fiscal Year 2004	\$48,172,541	\$46,272,250	-\$1,900,291
Fiscal Year 2005	\$48,254,321	\$45,734,895	-\$2,519,426
Fiscal Year 2006	\$48,336,240	\$45,203,783	-\$3,132,457
Fiscal Year 2007	\$48,418,296	\$44,683,095	-\$3,735,201
Six Year Total	\$289,200,468	\$275,995,084	-\$13,205,384

Source: Pierce County RSN Briefing Paper – October 2002

Finding I.d. Current Funding and Expenditure Trends May Make it Difficult for Pierce County to Meet Basic Mental Health Needs in the Community.

If total inpatient costs remain constant as the Mental Health Division’s reallocation process progresses, fewer funds will be available for other parts of the Continuum of Care. When the unfunded transfer of Western State Hospital liability is added to this equation, significant additional cuts will be required in the Continuum of Care and RSN administration. Table 7 shows a *preliminary analysis* of this impact where, under optimal conditions, there will need to be a 10% cut in 2003, an additional 6% cut in 2004, and a further 5% cut in 2005, totaling a three-year reduction to the Continuum of Care and RSN administration of 21%. This is a *best-case scenario* in which PSBH costs are brought down to the benchmark median described in Part III of this report. The details of this analysis can be found in *Attachment D*.

Table 7: Projected Pierce RSN Budget Cuts 2003 - 2005

	1-12/2002 Est	1-12/2003	1-12/2004	1-12/2005
Available Revenue	\$58,888,240	\$57,301,107	\$56,678,381	\$56,062,298
Projected Expenses	\$58,888,240	\$62,317,764	\$64,869,314	\$66,861,764
Excess (Deficit)	\$0	-\$5,016,657	-\$8,190,933	-\$10,799,466
Cumulative Excess (Deficit)		-\$5,016,657	-\$13,207,590	-\$24,007,055
Needed Continuum of Care Expense Reduction %		10.35%	16.58%	21.69%
Added Expense Reduction per Year		10.35%	6.22%	5.12%

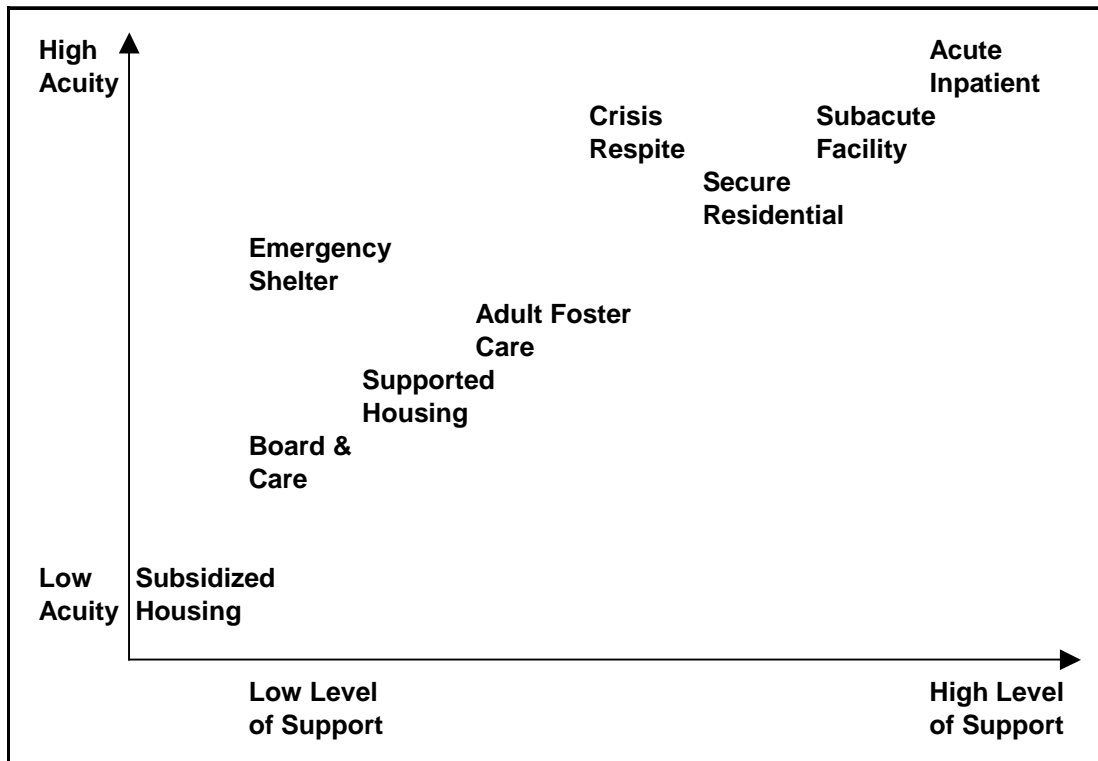
Source: MCPP Healthcare Consulting projections

Recommendation 1: Retain Puget Sound Behavioral Health as a 43-Bed Inpatient Resource for Pierce County Residents

1.1: PSBH Ownership: Puget Sound Behavioral Health should continue to be owned and operated by Pierce County *if the recommendations in Parts II and III are implemented*. This route provides the best opportunity for maintaining the stability and continuity of this important community resource. Successfully implementing the recommendations will have the effect of bringing the inpatient cost per day down to \$680, which is within 6% of the inflation adjusted median cost from the benchmarking study.

1.2: PSBH Growth: Unless the funding situation changes dramatically, the RSN should not increase PSBH beds by any substantial number. With a stable resource of 43 psychiatric beds at PSBH, the RSN should focus any future bed growth on the development and funding of less intensive and less expensive beds such as secure residential, supported housing and subsidized housing, whose costs run between \$50 and \$350 per day. Figure 1 illustrates the full range of facility-based options. PSBH falls into the “Acute Inpatient” category.

Figure 1: Housing Options Grid



Source: MCPP Healthcare Consulting

Recommendation 2: Develop a Three-Year Plan for Addressing State Mental Health Revenue Reductions and Shifting Service Demand

The Pierce County RSN should develop a Three-Year Resource Allocation Plan that projects demand for services across the Continuum of Care and identifies how funding adjustments should be made for each component of the continuum to help ensure that an acceptable balance is maintained in an environment of reduced resources. Specific attention should be given to ensuring that clients can be served in the most cost effective and least restrictive setting. *Attachment D* provides a preliminary analysis that can be expanded upon to support the Resource Allocation Plan.

Recommendation 3: Continue to Pursue Relief from the Mental Health Division and the Legislature Relating to the Western State Hospital Bed and RSN Funding Reallocations

If the work on the Three-Year Resource Allocation Plan supports the conclusion that the Mental Health Division's existing funding allocation model could result in Pierce County being potentially unable to meet the basic mental health needs of the community, Pierce County RSN officials should continue to pursue remedies with the Mental Health Division and the Legislature. This should include the completion of a data-driven analysis of Western State Hospital and RSN funding allocations that considers the latest prevalence work of the Mental Health Divisions' Prevalence Committee and the July 2002 Data Driven Allocation Model developed by the Association of Oregon Community Mental Health Programs.

Part II. Review of Puget Sound Behavioral Health's Overall Operations

This section contains *nine* findings and *seven* recommendations that relate to the examination of Puget Sound Behavioral Health's management and general operations. This material lays the groundwork for an examination of the findings and recommendations related to reducing PSBH's cost per patient day that are found in Part III.

Finding II.a. Puget Sound Behavioral Health has made Significant Progress under Difficult Conditions

Puget Sound Behavioral Health has been faced with a number of significant obstacles since it was acquired by the RSN in 2000, including fiscal problems inherited from the predecessor company and a host of new regulatory demands. The management team has successfully concentrated on closing money losing services, as well as gaining accreditations and certifications to increase PSBH's billing and reimbursement status. The large number of challenges faced in such a short period of time created a fragile and unstable environment for management and staff. Progress has been made on several fronts and the organization is just now getting to the point where it has the potential to become viable and stable.

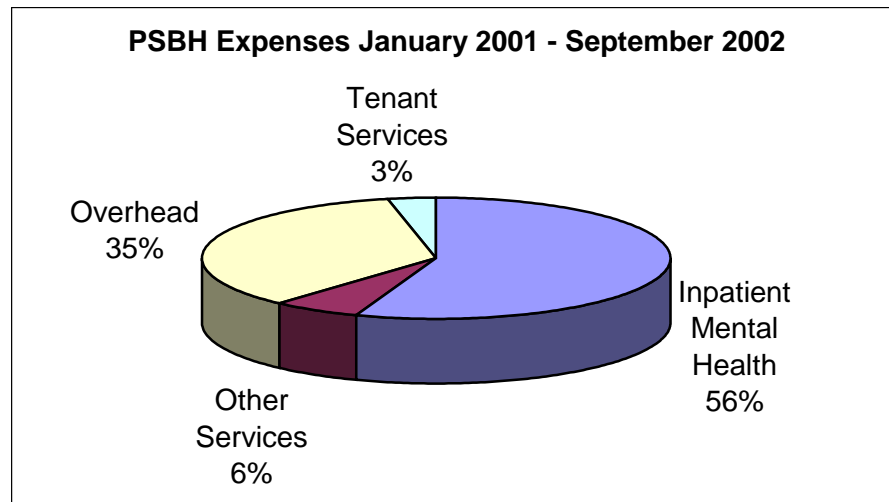
- RSN/PSBH management has closed several large programs and services between July 2001 and March 2002, including the Detox and Chemical Dependency units, the Emergency Room/Receiving Center, the Dual-Diagnosis program, and the laboratory. This has taken significant management time and focus.
- PSBH has undergone numerous successful accreditation and regulatory surveys between September 2001 and October 2002, including Washington Department of Health (DOH) audits, a Joint Commission for the Accreditation of Healthcare Organizations (JCAHO) survey, an Office of Civil Rights audit, and Board of Pharmacy and Radiology, and federal Center for Medicare and Medicaid Services (CMS) certification surveys. These accreditation and regulatory efforts were undertaken to address requirements for licensure (DOH) or reimbursement (CMS) or to demonstrate and improve the quality of care provided (JCAHO).

Finding II.b. The Pierce County Fund Accounting Structure for PSBH has Created Confusion about the Cost of PSBH Inpatient Services

The facilities and other assets and programs that the RSN acquired in the purchase of the Puget Sound Hospital should be considered as four distinct components:

- **Inpatient Mental Health Services:** The Third and Fifth Floor Psychiatric Inpatient Units, the Medical Services Department, and the Laboratory, Pharmacy, and Dietary Departments.
- **Tenant Services:** The Soundview Medical Plaza at 3611 South "D" Street and the “offsite” Radiology Department that is located at Soundview.
- **Other Services:** Chemical Dependency Outpatient Services, Chemical Dependency Inpatient Services, Detox Services, Partial Hospitalization Services, and Cafeteria Services.
- **Overhead Departments:** Cost centers that provide administrative and support services to the three components above. This consists of 20 cost centers including Central Supplies, Housekeeping, Medical Records, Security, Accounting, Administration, etc.

Figure 2: Seven Quarter Expense Breakdown



Inpatient Mental Health	\$16,638,712
Other Services	\$1,844,177
Overhead	\$10,429,134
Tenant Services	\$1,025,542

Source: Puget Sound Behavioral Health General Ledger

Prior to this Performance Review, these four components were grouped together as one. This resulted in instances where stakeholders mistakenly overstated cost per patient day. In addition, combining these cost centers into one made it difficult to evaluate RSN subsidization of non-inpatient programs.

Finding II.c. The RSN Model for Funding PSBH Does Not Support Operating Efficiencies

Currently the Pierce County RSN funds PSBH through a grant-in-aid type monthly allocation process, regardless of the number of bed days or other service levels. These funds have been used to support inpatient mental health for RSN-responsible clients along with several other activities including payment shortfalls for Medicare, private insurance and self-pay inpatient days, and other non-mental health inpatient costs that are described further in Finding II.g. The payment method makes it very difficult to match revenues with expenses and understand what the RSN is actually buying. This hinders hospital managers in managing the revenues and expenses for their departments and makes it difficult to ensure that the policy intent of the RSN funding is maintained.

Finding II.d. PSBH is Lacking in Key Financial and Utilization Management Systems

While some financial and utilization reports are available, PSBH managers lack the financial and utilization management systems required to monitor a number of key management indicators. This includes items such as staffing hours per day, supply costs, revenue and direct expense per patient day, and allocated indirect costs. Until recently, the focus has been on assuring the quality of care provided by PSBH and achieving regulatory compliance. While the monthly reports received by the Chief of Clinical Services contain budget and expense information by department, no analyses of financial information (e.g. labor hours by type of staff or supply cost per patient day) were observed. In addition, there was no evidence of expense projections to assist the management team in planning for and directly managing their costs.

Finding II.e. PSBH has a Management Structure that Inhibits its Ability to Operate at Maximum Efficiency

PSBH, as an operating unit within the Pierce County RSN, puts the RSN in the potentially conflicting roles of mental health system manager and major provider of care. Pierce County managers actually wear several hats, serving the Regional Support Network, other parts of the Human Services Department (Aging, Developmental Disabilities, etc.), as well as a mid-sized, complex psychiatric hospital (PSBH).

In most public systems where the government is both a system manager and a service provider, structures are put in place to create some degree of arms-length relationship between the two roles. This is usually done through segregating management duties so that one person is not responsible for direct management of both operations. Typically, there is a manager of the “managed care” operation and a separate manager of the service delivery organization. This segregation helps prevent potential conflict of interest. In Pierce County the Director of Human Services, who serves as the RSN Manager, is also the chief administrator of Puget Sound Behavioral Health.

A related concern is that various oversight roles at PSBH, including clinical services, financial management, and support services, have been delegated to multiple managers, many of whom have a variety of other responsibilities. There is no single, full-time hospital manager who has been charged with overall financial and clinical responsibility and authority for the hospital. Unlike many other social and health service activities that are run by local governments, hospital management is a uniquely complex set of activities that requires a single focal point for accountability and decision-making.

Finding II.f. PSBH's Efficiency is Adversely Impacted by Pierce County Human Resources Policies and Procedures

Pierce County human resource policies and procedures restrict some of the staffing practices normally used by hospitals to create flexible staffing patterns that are more cost effective. Specifically, the PSBH labor costs and staffing model could be improved by: a) permitting allowances for shift and weekend differentials, and b) changing the extra hire policy that constrains the ability to create float pools for part-time nursing staff. Unless these issues are addressed, it will continue to be difficult for PSBH to come into line with a number of benchmark indicators described in Part III. In the consultants' experience there are numerous county governments where solutions to these problems have been achieved.

Finding II.g. The Pierce County RSN has Subsidized Non-RSN Activities at PSBH

Since the purchase of PSBH in 2000, the RSN has provided substantial subsidies to non-RSN activities, as detailed below.

- **Chemical Dependency and Detox Programs:** During the period of study, between January 2001 and September 2002, Inpatient Chemical Dependency, Outpatient Chemical Dependency and Detox required a subsidy of \$1.1 million, including estimated overhead expenses. These programs were closed in September 2001.
- **Medical Emergency Room Services:** During the period of study, between January 2001 and September 2002, the medical emergency room services required a subsidy of \$1.8 million, including estimated overhead expenses. This program was closed in the first quarter of 2002.
- **Soundview Medical Plaza:** This part of PSBH includes the Soundview Medical Plaza and the "offsite" Radiology Department. During the period of study, between January 2001 and September 2002, the Medical Plaza required a subsidy of approximately \$600,000, including estimated overhead expenses.
- **Cafeteria Operations:** During the period of study, between January 2001 and September 2002, the cafeteria required a subsidy of over \$200,000, including estimated overhead expenses.

Table 8: Summary of Operating Subsidies

	Subsidy of	Subsidy of	Subsidy of	Total Subsidy
	Direct Expense Jan - Dec 2001	Direct Expense Jan - Sept 2002	Estimated Overhead	
Chemical Dependency and Detox	\$597,340	\$142,166	\$412,643	\$1,152,149
Medical Emergency Room	\$1,127,606	\$170,816	\$489,073	\$1,787,494
Soundview Medical Plaza	\$338,409	\$148,911	\$123,542	\$610,861
Cafeteria	\$85,420	\$69,481	\$87,705	\$242,606
Total	\$2,148,774	\$531,374	\$1,112,962	\$3,793,110

Sources: Puget Sound Behavioral Health General Ledger; PSBH 10/02 Cafeteria Analysis

As the RSN has assessed the inability of these operations to break even, it has chosen to close several programs. This has made a significant positive impact on the need for RSN subsidies for non-RSN activities.

Finding II.h. The Pierce County RSN has Subsidized Non-Medicaid Inpatient Mental Health Services

During the period of January through September 2002, PSBH provided 6,042 days of inpatient mental health service to Medicare, Private Insurance, and Self-Pay residents of Pierce County as well as a small number of Medicaid enrollees from other Regional Support Networks. During this period, costs exceeded revenue, resulting in a nine-month subsidy of approximately \$2.2 million.

Table 9: Summary of Operating Subsidies, Part 2

	<u>Jan - Sept 2002</u>
Average Revenue per Day	\$545.42
Average Cost per Day	\$912.13
Excess (Deficit) per Day	-\$366.71
Total Non-RSN Days	6,042
Subsidy	-\$2,215,635

Sources: PSBH General Ledger; PSBH Patient Days Report

The main reason for this subsidy was the fact that the average cost per patient day (\$912.13) was significantly higher than market rates for these services. This problem is addressed in detail in Part III. Other important factors include:

- A substantial number of Medicare services provided since the hospital opened were not billable because the RSN did not have a Medicare provider number for the unit where the client was served. The successful Medicare certification of the 3rd floor in October of this year has resolved the last major problem in this area.
- PSBH continues to provide initial medical assessments at the Crisis Triage Center without reimbursement because these patients have not yet been admitted to the

hospital and insurance companies will not recognize the Crisis Triage Center as a “valid” place of service.

- There appears to be a degradation of the procedures to track and bill for the use of patient supplies.
- Some patients are staying in the hospital longer than medically necessary because of delays in discharges, primarily due to difficulty in placement at residential and residential treatment facilities. The most common problems with placement are for patients who require placement in dementia care facilities, Veterans Administration, developmental disability facilities, and alcohol treatment facilities. In the current situation, every extra day for non-RSN clients requires an RSN subsidy.

Finding II.i. Puget Sound Behavioral Health Facilities Require Substantial Capital Investment

PSBH management engaged one of the leading architectural firms in the Northwest, Callison Architecture, to complete a facilities plan for the hospital and a long-range master plan for the Department of Human Services. Because of the age of PSBH the physical plant and deficiencies related to psychiatric patient safety, substantial capital investment will be required in the near future. Current reserves are inadequate to fund these projects.

Table 10: Architectural Master Plan Budget

Project	Sq Ft	Budget	Priority
Project A South Building 2nd Floor Triage Unit	6,087	\$2,652,712	1
South Building 4th Floor Inpatient Unit	12,004		
Project B South Building 5th Floor Nursing Unit	12,000	\$1,324,000	4
Project B1 Air Conditioning for Nursing Unit		\$80,000	4
Project C Food Service		\$20,000	2
Project D North Building 4th Floor Courts	1,620	\$195,000	1
Project E Security Access System		\$94,000	1
Project F Central Plant	1,280	\$1,573,000	3
Project G North Building 4th Floor	6,580	\$696,000	1
Project H North Building 1st Floor Lobby	1,535	\$437,000	2
Project I North Building Boardroom	1,450	\$231,000	2
Project J Site Improvements		\$376,000	3
Project K Shop	1,500	\$247,000	3
Project L Conference Center	2,795	\$310,000	4
Project M South Building 1st Floor Lobby	3,660	\$422,000	4
Project M1 Lobby Toilet Room	220	\$35,000	1
Totals		\$8,692,712	

Source: Callison Architecture Master Plan

Recommendation 4: Change the Pierce County RSN Model for Funding Puget Sound Behavioral Health

The Pierce County RSN should revise the funding model for Puget Sound Behavioral Health to ensure that the payment per day is reasonable and comparable with other payors. One approach would be to implement a two-part funding model, as follows.

4.1 Negotiated Per Diem Rate: The RSN would institute a Negotiated Per Diem Rate for PSBH, similar to the method used for RSN eligible patients served at every other community hospital. Each year, as the RSN and PSBH are preparing their budgets for the following year, the RSN would negotiate a daily reimbursement rate with PSBH. This rate would be based on the prevailing market rates and recent benchmark information. If this method is used, the RSN should consider paying PSBH a 2003 daily rate of \$680, inclusive of facility costs and professional fees. This figure is based on the 2002 Benchmark Cohort Median Cost per Day of \$611.47, adjusted for inflation and increased an additional 6.24% to reflect what PSBH can be reasonably expected to achieve. Under this arrangement, PSBH would bill the RSN for inpatient days where the RSN is the primary payor, and co-insurance amounts where the RSN is secondary. These revenues would be recorded in the cost center where the service was provided and reflected on the monthly income statements for each department. This approach would have the effect of creating fiscal targets that PSBH must meet and providing immediate feedback to each PSBH manager regarding their financial performance.

Table 11: 2003 PSBH Daily Payment Rate Calculation

	<u>Cost per Patient Day</u>
2002 Benchmark Median	\$611.47
2002 Medical Inflation Rate	4.50%
Adjustment for 2003	\$638.99
"Achievability" Adjustment	6.24%
Rounded Daily Rate	\$680.00

Sources: American Hospital Association, Washington Center for Health Statistics, California Office of Statewide Health Planning and Development, US Department of Labor

4.2 Contingency Reserve: If the Negotiated Per Diem Rate method is used, the RSN should consider creating a one-time contingency reserve for PSBH for 2003. These would be pre-planned additional monthly contributions the RSN would make to aid in PSBH's transition to the \$680 per day rate. This revenue would be recorded in a separate general ledger account so that these funds could be distinguished from the Negotiated Per Diem Rate. Such subsidies would decrease each quarter in 2003, with the

expectation that PSBH would be operating at the \$680 per day cost no later than the fourth quarter of 2003.

Recommendation 5: Revise the Management Structure of Puget Sound Behavioral Health

5.1 Chief of Hospital Services: Pierce County should create a Chief of Hospital Services position. This position should be responsible for all aspects of Puget Sound Behavioral Health clinical management, financial and utilization management, and support operations for the hospital. The Chief of Hospital Services should be the accountable individual for hospital operations and be given the requisite decision-making authority, including budget development, personnel management, and day-to-day operations. This position should have final management responsibility for all of the departments within the PSBH fund. The Chief of Hospital Services should work closely with the Department of Human Services Operations and Communications/Data Systems Managers, who are responsible for a number of overhead activities that support the hospital.

5.2 Financial Administrator: Pierce County should create a Financial Administrator position that will be directly responsible for all financial and utilization management efforts. This position should be structured via a matrix arrangement where the Chief of Hospital Services is the *functional* supervisor and the Department of Human Services Fiscal Manager is the *technical* supervisor. The Financial Administrator would provide full-time support and consultation to the Chief of Hospital Services and should serve on the hospital's Leadership Team. This position should supervise the PSBH departments of Accounting, Business Office, and Admitting. These departments currently report to the Department of Human Services Fiscal Manager.

5.3 PSBH Management and Supervisory Restructuring: Pierce County should alter the management and supervisory structure of PSBH so that the positions identified in recommendations 5.1 and 5.2 do not increase the management and supervisory full time equivalents at PSBH. This can be accomplished through altering existing job descriptions, creating new positions and eliminating existing positions, or a combination of the two approaches. It is possible that this recommendation, while not increasing full time equivalents, may increase PSBH's costs between \$3 and \$4 per day, because of increased salary levels. If this were to occur, the increases should be offset by the strategies listed in the Part III recommendations.

5.3 RSN Manager: The role of the Regional Support Network Manager should be revised so that a more arms-length relationship is created between this position and the oversight of hospital operations. As

responsibilities are shifted to the Chief of Hospital Services, the RSN Manager should move back into a similar oversight role as with contracted community-based provider organizations, with the exception that the RSN Manager will continue to directly supervise the Chief of Hospital Services.

Recommendation 6: Change the Management Oversight of the Soundview Medical Plaza

The Soundview Medical Plaza (department 680) and the related Off-Site Radiology service (department 442) should be transferred out of the PSBH fund and into the Department of Human Services. A three-year business plan should be developed for these departments to assess whether the operations can break even in 2003, including covering overhead costs, and remain financially viable for 2004 and 2005. If financial viability cannot be demonstrated, Pierce County should pursue selling the building, which may require additional negotiations with MultiCare Health System, the organization that assisted in the original purchase. If operations are kept open, a specific Human Services manager should be given authority, responsibility, and adequate staff time to properly manage the building, staff, and tenants.

Recommendation 7: Increase the Flexibility of Pierce County's Human Resources Policies and Procedures

Pierce County should work with PSBH management to provide: a) hospital industry-standard flexibility related to allowances for shift and weekend differentials, and b) the ability to create float pools for part-time nursing staff to further reduce agency costs.

Recommendation 8: Continue Revenue Enhancement Activities

PSBH staff should complete a revenue enhancement study to identify areas of under-billing and develop quality-improvement strategies to correct existing problems. If it is determined that services provided in specific locations are not reimbursable, PSBH should consider eliminating or significantly reducing those services.

Recommendation 9: Implement a Management Control Process

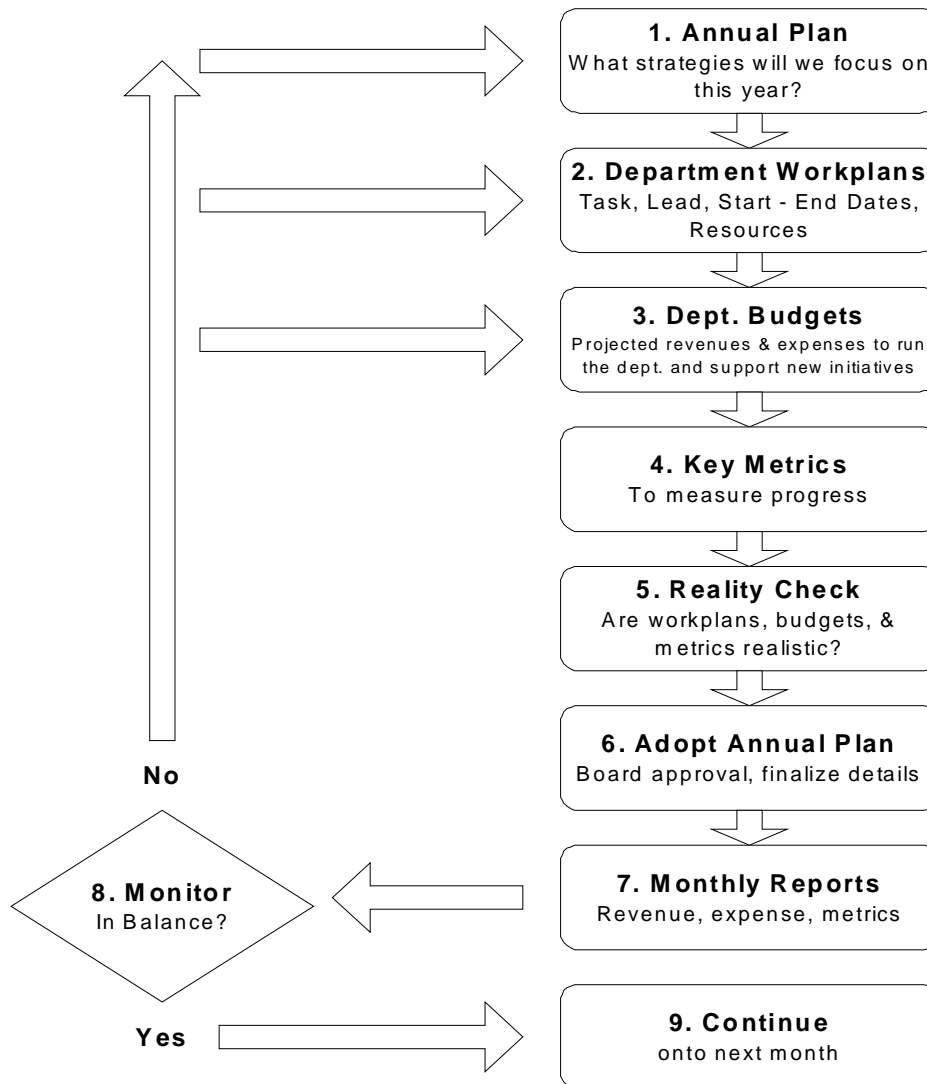
Puget Sound Behavioral Health, under the leadership of the Chief of Hospital Services and Financial Administrator, should expand the existing Pierce County budgeting and reporting process into a Management Control Process consisting of the nine formal activities listed in Figure 3 below. Three specific changes should occur to support the implementation of this process:

9.1: Decentralized Responsibility: Push more responsibility and authority for specific hospital departments and units down to supervisors and managers. They should have increased responsibility for: developing Department Workplans; creating Department Budgets; identifying the metrics against which they will be measured; thorough monitoring of daily, weekly and monthly reports; and taking proactive problem-solving measures if it appears that revenues, expenditures, staffing hours, or other key indicators are varying from projections.

9.2: Budgeting Tools: Develop a set of budgeting tools that managers and supervisors will be trained on so they can prepare their own labor hours, labor costs, other direct expenses and revenue budgets. The current practice of having most of this work done by fiscal staff should be re-engineered so that this shifts to the supervisors and managers.

9.3: Management Reports: Develop a set of standard reports that allow supervisors and managers to monitor their revenues, expenses, labor, days, average length of stay, and other metrics used in the budgeting process, on a daily, weekly, and monthly basis.

Figure 3: Management Control Process



Source: MCPP Healthcare Consulting

Recommendation 10: Pursue Capital Improvements and Build the Expenditures into the Cost per Day Budget Projections

PSBH should consider working with Pierce County to issue 15-year Revenue Bonds to fund necessary capital improvements at the facility. The alternative would be to increase near term operating budgets to fund this construction, which could increase PSBH’s cost per day by as much as \$100 for Priority 1 and 2 projects. 15-year revenue bonds to support the same projects, at current rates, would increase the cost per day by \$36. As PSBH works to reduce the cost per patient day, these costs will have the effect of increasing overhead cost per day. This will need to be offset

by additional reductions in other overhead areas, as described below in Part III, Recommendation 14.

Table 12: Capital Improvement Financing

Cost of Priority 1 and 2 Projects	\$4,360,712
Bed Capacity	43
Occupancy Rate	95%
Bed Days per Year	14,910
3-Year Operating Budget Payback	
Days	44,731
Cost per Day	\$97.49
15-Year Revenue Bonds	
Estimated Interest Rate	4.92%
Average Cost per Year	\$532,553
Cost per Day	\$35.72

Sources: Washington Health Care Facilities Authority and Bloomberg.com

Part III. Review of Puget Sound Behavioral Health’s Inpatient Services

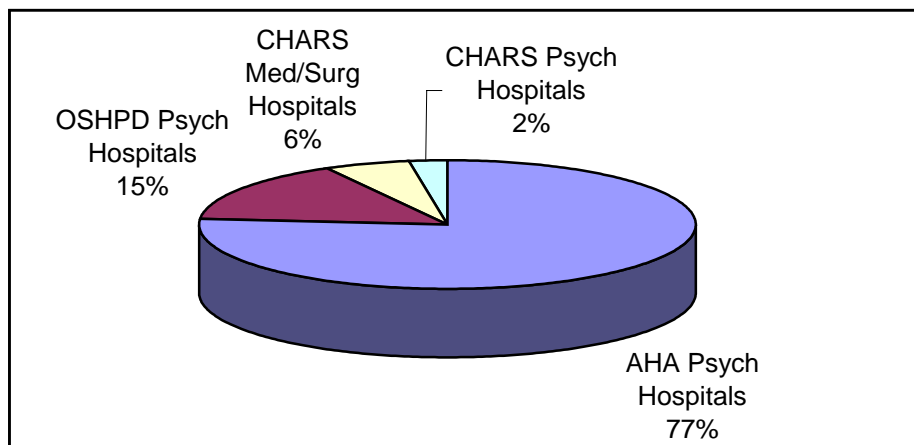
This section contains *five* findings and *four* recommendations that focus on Puget Sound Behavioral Health’s inpatient services, with specific attention to the cost per patient day. The recommendations have been developed to assist PSBH in achieving a cost per day of \$680, which approaches the inflation-adjusted cost per day benchmark group median of \$640.

Finding III.a. Puget Sound Behavioral Health is below the 50th Percentile in Nine out of Fourteen Performance Measures

Puget Sound Behavioral Health’s performance was benchmarked against data collected from three sources: the 2001 Washington Center for Health Statistics (CHARS) database, the 2000 American Hospital Association (AHA) database, and the California Office of Statewide Health Planning and Development (OHSPD) database. PSBH data was based on January - September 2002 actual data and is described in more detail in *Attachment A*. All 2000 and 2001 cost figures were adjusted, based on the national consumer price index (CPI) for medical care.

The benchmark group included 123 hospitals that had between 25 and 75 psychiatric beds. 116 hospitals were freestanding psychiatric hospitals, which is defined as facilities that are not part of a medical/surgery hospital. In addition, seven Washington State medical/surgery hospitals that provided more than 200 inpatient stays during 2001 were included.

Figure 4: Benchmark Hospitals



Sources: American Hospital Association, Washington Center for Health Statistics (CHARS), California Office of Statewide Health Planning and Development (OSHPD)

Fourteen performance indicators were compared, identifying Low, High, Average, Median, PSBH “score”, PSBH rank, and PSBH percentile. Not every hospital reported on every indicator and not every database tracked every data element, which resulted in a varying number of facilities for each of the fourteen measures.

Ranking Method: The ranking method used for the analysis gives a score of 1 to the lowest performing hospital and the largest number to the highest performing facility. For example, when PSBH cost per day is compared with 79 facilities and given a rank of 10, this denotes that PSBH was 10th from the bottom and scored poorly.

Percentile Method: The bottom ranking hospital on a given indicator would receive a Percentile score of 0%, and the top ranking hospital would receive a Percentile score of 100%. In the example above, when PSBH ranked 10th out of 79 it fell into the 12th Percentile, a low performing score. If PSBH had ranked 40th in the field of 79, it would have been at the median, or 50th Percentile.

Table 1 has been repeated below for clarity. Additional information about the benchmarking process can be found in *Attachment B – Benchmark Report*.

Table 1: Benchmark Summary

Indicator	Facilities	Average	Median	2002 PSBH	PSBH Rank #	PSBH Percentile
					(Low performing to High performing)	
1 Average Length of Stay	122	13.27	11.14	10.41	80	65%
2 Cost per Patient Day	79	\$656.17	\$611.47	\$912.13	10	12%
3 Cost per Admit/Discharge	79	\$8,769	\$6,811	\$9,499	20	24%
4 Direct Cost per Patient Day	27	\$434.62	\$388.81	\$496.20	7	23%
5 Payroll Expense per Patient Day	77	\$332.69	\$308.52	\$293.57	50	64%
6 Employee Benefits per Patient Day	77	\$70.89	\$62.25	\$66.29	33	42%
7 Clinical Professional Fees per Patient Day	15	\$75.00	\$45.33	\$121.56	2	7%
8 Other Professional Fees per Patient Day	18	\$34.39	\$23.65	\$6.27	14	76%
9 Supplies per Patient Day	27	\$26.66	\$19.45	\$5.43	23	85%
10 Overhead Expense per Patient Day	10	\$278.79	\$270.90	\$415.92	1	0%
11 Clinical Staff Hours per Patient Day	108	5.41	3.47	9.20	10	8%
12 Medical Hours per Patient Day	83	0.50	0.47	1.12	4	4%
13 Nursing Hours per Patient Day	115	4.12	3.00	3.45	33	28%
14 Total Staff Hours per Patient Day	117	19.02	15.36	10.72	101	86%

Sources: American Hospital Association, Washington Center for Health Statistics, California Office of Statewide Health Planning and Development

1. Average Length of Stay: Puget Sound Behavioral Health’s average length of stay between January and September 2002 was 10.41 days, which ranked 80th out of 122 facilities and placed it in the 65th Percentile of the benchmark group, as illustrated by the following table.

	<u>Average Length of Stay</u>
# of Facilities	122
Low	4.03
High	71.77
Average	13.27
Median	11.14
PSBH Jan. - Sept. 2002	10.41
PSBH Rank	80
PSBH Percentile	65%

2. Cost per Patient Day: Puget Sound Behavioral Health’s cost per patient day between January and September 2002 was \$912.13, which ranked 10th from the bottom out of 79 facilities and placed it in the 12th Percentile of the benchmark group.

	<u>Cost per Patient Day</u>
# of Facilities	79
Low	\$265.47
High	\$2,215.35
Average	\$656.17
Median	\$611.47
PSBH Jan. - Sept. 2002	\$912.13
PSBH Rank	10
PSBH Percentile	12%

3. Cost per Hospital Stay: Puget Sound Behavioral Health’s cost per hospital stay between January and September 2002 was \$9,499, which ranked 20th from the bottom out of 79 facilities and placed it in the 24th Percentile of the benchmark group.

	<u>Cost Per Hospital Stay</u>
# of Facilities	79
Low	\$696
High	\$44,494
Average	\$8,769
Median	\$6,811
PSBH Jan. - Sept. 2002	\$9,499
PSBH Rank	20
PSBH Percentile	24%

4. Direct Cost per Day: Puget Sound Behavioral Health's direct cost per patient day between January and September 2002 was \$496.20, which ranked 7th from the bottom out of 27 facilities and placed it in the 23rd Percentile of the benchmark group. Direct costs include direct patient care expenses and no overhead or ancillary department costs.

	<u>Direct Cost per Day</u>
# of Facilities	27
Low	\$161.24
High	\$1,324.61
Average	\$434.62
Median	\$388.81
PSBH Jan. - Sept. 2002	\$496.20
PSBH Rank	7
PSBH Percentile	23%

5. Payroll Expense per Day: Puget Sound Behavioral Health's payroll expense per patient day between January and September 2002 was \$293.57, which ranked 50th out of 77 facilities and placed it in the 64th Percentile of the benchmark group.

	<u>Payroll Expense/Day</u>
# of Facilities	77
Low	\$101.21
High	\$816.23
Average	\$332.69
Median	\$308.52
PSBH Jan. - Sept. 2002	\$293.57
PSBH Rank	50
PSBH Percentile	64%

6. Employee Taxes and Benefits Expense per Day: Puget Sound Behavioral Health's employee taxes and benefits expense per patient day between January and September 2002 was \$66.29, which ranked 33rd out of 77 facilities and placed it in the 42nd Percentile of the benchmark group.

	<u>Taxes/Benefits Expense/Day</u>
# of Facilities	77
Low	\$6.23
High	\$253.02
Average	\$70.89
Median	\$62.25
PSBH Jan. - Sept. 2002	\$66.29
PSBH Rank	33
PSBH Percentile	42%

7. Clinical Professional Fees per Day: Puget Sound Behavioral Health's clinical professional fees per patient day between January and September 2002 was \$121.56, which ranked 2nd from the bottom out of 15 facilities and placed it in the 7th Percentile of the benchmark group. Clinical professional fees include contracted physicians and nursing registry costs. A further breakdown of these expenses show that PSBH contracted physician costs per patient day were \$35.56 and nursing registry costs per patient day were \$86.00.

	<u>Clinical Prof Fees/Day</u>
# of Facilities	15
Low	\$16.77
High	\$476.17
Average	\$75.00
Median	\$45.33
PSBH Jan. - Sept. 2002	\$121.56
PSBH Rank	2
PSBH Percentile	7%

8. Other Professional Fees per Day: Puget Sound Behavioral Health's other professional fees per patient day between January and September 2002 was \$6.27, which ranked 14th out of 18 facilities and placed it in the 76th Percentile of the benchmark group. Other professional fees include legal, accounting, and similar non-clinical fees.

	<u>Other Prof Fees/Day</u>
# of Facilities	18
Low	\$1.21
High	\$170.64
Average	\$34.39
Median	\$23.65
PSBH Jan. - Sept. 2002	\$6.27
PSBH Rank	14
PSBH Percentile	76%

9. Medical Supplies per Day: Puget Sound Behavioral Health’s medical supply expense per patient day between January and September 2002 was \$5.43, which ranked 23rd out of 27 facilities and placed it in the 85th Percentile of the benchmark group.

	<u>Supplies per Day</u>
# of Facilities	27
Low	\$2.35
High	\$98.31
Average	\$26.66
Median	\$19.45
PSBH Jan. - Sept. 2002	\$5.43
PSBH Rank	23
PSBH Percentile	85%

10. Overhead Expense per Day: Puget Sound Behavioral Health’s overhead expense per patient day between January and September 2002 was \$415.92, which ranked it at the bottom out of 10 facilities.

	<u>Overhead per Day</u>
# of Facilities	10
Low	\$201.17
High	\$415.92
Average	\$278.79
Median	\$270.90
PSBH Jan. - Sept. 2002	\$415.92
PSBH Rank	1
PSBH Percentile	0%

An additional study was done, comparing PSBH with all 23 Washington State Hospitals that provided more than 200 psychiatric discharges. In this study PSBH ranked 3rd out of 23, which put it in 9th percentile. The majority of these hospitals are medical/surgery hospitals, which are routinely more expensive.

11. Total Clinical Hours per Day: Total clinical hours include all employee clinical staff (physicians, nurse practitioners, physician assistants, nurses, behavioral health specialists, certified nursing assistants, mental health therapists, and recreational therapists). Puget Sound Behavioral Health’s total clinical hours per patient day between January and September 2002 were 9.20, which ranked 10th from the bottom out of 108 facilities and placed it in the 8th Percentile of the benchmark group.

	<u>Clinical Hours per Day</u>
# of Facilities	108
Low	1.28
High	92.15
Average	5.41
Median	3.47
PSBH Jan. - Sept. 2002	9.20
PSBH Rank	10
PSBH Percentile	8%

12. Medical Hours: Medical hours include employee physicians, nurse practitioners and physician assistants. Puget Sound Behavioral Health’s medical hours per patient day between January and September 2002 were 1.12, which ranked 4th from the bottom out of 83 facilities and placed it in the 4th Percentile of the benchmark group.

	<u>Medical Hours per Day</u>
# of Facilities	83
Low	0.09
High	2.20
Average	0.50
Median	0.47
PSBH Jan. - Sept. 2002	1.12
PSBH Rank	4
PSBH Percentile	4%

13. Nursing Hours: Nursing hours includes employee nurses, but not contracted registry nurses. Puget Sound Behavioral Health’s nursing hours per patient day between January and September 2002 were 3.45, which ranked 30th out of 115 facilities and placed it in the 25th Percentile of the benchmark group.

	<u>Nursing Hours per Day</u>
# of Facilities	115
Low	1.28
High	40.37
Average	4.12
Median	3.00
PSBH Jan. - Sept. 2002	3.45
PSBH Rank	30
PSBH Percentile	25%

14. Total Staff Hours per Day: Total staff hours per day include all direct employee staff, but no contractors or overhead employees. This includes 9.20 clinical staff hours per day (item 11 above) and 1.52 direct support and management staff hours per day, the majority being comprised of office assistant positions (not included in other items in this finding). Puget Sound Behavioral Health’s total hours per patient day between January and September 2002 were 10.72, which ranked 98th out of 117 facilities and placed it in the 84th Percentile of the benchmark group. This suggests that direct support hours per day are relatively low compared with other facilities. This is offset by item 10, where overhead costs per day are the highest of the benchmark group and include the PSBH management and supervisory staff.

	<u>Total Staff Hours/Day</u>
# of Facilities	117
Low	4.54
High	214.86
Average	19.02
Median	15.36
PSBH Jan. - Sept. 2002	10.72
PSBH Rank	98
PSBH Percentile	84%

Finding III.b. Puget Sound Behavioral Health Management has Taken Action to Improve Performance

PSBH leadership has identified and implemented a number of changes to improve financial performance and clinical operations, in addition to the service and program closures listed in Part II.

- PSBH has terminated or reduced various contracts, including the ER physicians' contract (terminated January 2002); the ORYX performance measure tracking payments (terminated February 2002); reduced the laundry, infection control and contracted psychiatrist contracts; and three of the RN agency contracts were renewed with a rate of increase that was 60% lower than requested.
- Operating costs have been reduced by eliminating several positions including the night receptionist position, admitting supervisor, coder, transcriptionist, business manager, accounting assistant, practice managers and payroll clerk. In addition, management transferred one nursing FTE to a permanent "float" position, and did not fill a number of vacant positions. PSBH has successfully recruited and filled permanent staff positions to reduce agency costs, optimized trash compacting, and implemented energy conservation efforts.
- Quality and cost effectiveness were improved through the implementation of the PYXIS Medication Dispensing System. PSBH has also improved the admissions process to identify the patients' payors earlier in the process, and implemented a dietary inventory system.

PSBH management is continuing to identify and implement cost saving measures through proposed staff and management reductions, increasing staff skills in areas such as blood drawing to improve flexibility and scope of functions, and continuing to hire more permanent nursing staff to reduce the agency costs.

One of the downsides to closing programs has been a negative impact on patient days. During the first quarter of 2002, the last period that the Dual Diagnosis Program was open, PSBH provided an average of 1,292 days per month, which was an occupancy rate of 100%. In the six months following the closure of the Dual Diagnosis Program (April – September 2002), this dropped to an average of 1,029 days per month, which was an occupancy rate of 78%.

Finding III.c. Puget Sound Behavioral Health has an Innovative Clinical Program Design that Requires a High Use of Mental Health Clinicians

PSBH has developed a Learning Center based on the Hope and Recovery Model that utilizes space separate from the inpatient units to provide intensive mental health treatment to inpatient clients. The Learning Center also provides group services to family members. Rather than just providing medication management and creating a safe environment, PSBH has made a commitment to providing active treatment. While this is an important and innovative program, it is also expensive and a major reason why total clinical hours per day are in the 8th Percentile.

Finding III.d. Inpatient Dietary Costs at Puget Sound Behavioral Health are Higher than Market Rates

PSBH total costs for the Dietary department between January and September 2002, including overhead, were \$756,358. During that time, 34,541 patient meals were served, which translated into a direct cost of \$12.71 per meal and a total cost (including overhead) of \$21.90 per meal. These costs also include nutrition assessments that are provided to every patient. If the costs of the food service manager, who provides the nutrition assessments, are backed out of the direct costs, the direct cost per meal is \$11.25. This compares with an average cost per meal of \$3.65 at a comparable facility in Seattle, which contracts its meal services to a third party. If PSBH were to contract out their meal service, it is possible that some of the \$11.25 per day direct cost would still be necessary.

Table 13: Dietary Analysis January - September 2002

	Total Costs	Less Manager	Net Costs
Salaries and Benefits	\$315,435	-\$50,288	\$265,147
Supplies	\$139,224	\$0	\$139,224
Other Direct	\$20,663	\$0	\$20,663
Crisis Triage Center Transfer	-\$36,436	\$0	-\$36,436
Total Direct Costs	\$438,886	-\$50,288	\$388,598
Overhead	\$317,482	\$0	\$317,482
PSBH Total Expenses	\$756,368	-\$50,288	\$706,080
Patient Meals	34,541		34,541
PSBH Total Cost per Meal	\$21.90		\$20.44
PSBH Direct Cost per Meal	\$12.71		\$11.25
Comparison Meal Cost Estimate: Purchased Meals			\$3.65
Potential Savings: PSBH Direct Cost - Comparison Cost			\$7.60

Sources: PSBH General Ledger and Meal Analysis; West Seattle Psychiatric Hospital

Finding III.e. Pierce County Indirect Expenses are a Large Component of PSBH Overhead

In January through September 2002, PSBH’s overhead expense per day of \$415.92 was comprised of \$89.20 of Pierce County indirect allocations and \$326.73 of PSBH expenses. The total overhead cost per day is 54% above the \$270.90 median for the benchmark group. PSBH will not be able to achieve a reasonable cost per day without getting these costs under control. Detail of these costs is listed in Table 14, below.

**Table 14: Overhead Analysis
January - September 2002**

	Jan-Sept 2002
	<u>Cost per Day</u>
Budget & Finance Indirect	\$12.44
Comm. and Human Services Support	\$1.55
Records Management	\$0.07
Rentals	\$45.35
Routing & Delivery	\$0.36
RSN Staff Allocation	<u>\$29.43</u>
Total County Indirect Costs	\$89.20
Direct Space Costs	\$13.52
PSBH Indirect	\$178.81
Laboratory Expense	\$10.72
Pharmacy Expense	\$48.41
Dietary Expense	<u>\$75.26</u>
Total Direct	\$326.73
Total Overhead	<u>\$415.92</u>

Source: PSBH General Ledger Analysis

Recommendation 11: Increase the Occupancy Rate

PSBH should take actions to achieve the budgeted 2003 occupancy rate of 95% (41 out of 43 beds). To meet this target, PSBH management should work with the Crisis Triage Center, the RSN care managers, and other referrers of inpatient care to ensure that clear lines of communication are kept open regarding any PSBH bed vacancies. PSBH management should also work with the RSN planning process described in Recommendation 2 to determine whether adequate demand exists in Pierce County to meet the 95% target. If 2003 bed day projections suggest that the demand in some periods will result in fewer than 41 beds, PSBH should approach nearby Regional Support Networks and other health plans to “market” their services. This change could reduce the cost per patient day by as much as \$87.

Recommendation 12: Evaluate and Reduce Clinical Staffing Costs and Ratios

Analysis of the Benchmark Cohort data indicates that three important clinical staffing indicators are in the lowest 10% of the benchmark group: Total Clinical Employee Staff Hours (8th Percentile), Medical Employee Staff Hours (4th Percentile), and Clinical Professional Fees (7th Percentile). The targets in sub-recommendations 12.2 – 12.4 should be used as general guidelines only. Management should use its professional judgment to ensure that a proper balance is reached between clinical design and financial feasibility. If a set of different targets would better achieve the \$680 per day cost, management should revise these figures accordingly.

12.1: Contact Better Performing Facilities: PSBH should further analyze the components of the clinical staffing costs and then contact a small group of benchmark hospitals to identify cost efficiencies and potential program design changes. *Attachment B* contains the names, locations, and indicators of the 123 hospitals in the benchmark group.

12.2: Contract Physicians: PSBH management should complete a study that would evaluate the clinical impact and operational feasibility of reducing the contracted physician costs by 50%. These savings can come from revising the physician productivity expectations and/or changing the clinical model such that less physician involvement is required. These changes could reduce the cost per patient day by more than \$17, which would reduce cost per day while maintaining PSBH medical services well above the benchmark group median, as illustrated in Table 15, below.

Table 15: Medical Staffing Analysis

Benchmark Median Data	Hours/Costs
Median Medical Employee and Contract Costs per Day	\$56.95
PSBH Data	Hours/Costs
Total Medical Employees Cost per Day	\$81.19
Physician Contract Fees/Day	\$35.56
Total PSBH Medical Costs per Day	\$116.74
Recommendation 12.2 Contracted Physician Reduction of 50%	\$17.78
Revised PSBH Medical Costs per Day	\$98.97
Revised PSBH Medical Costs Over (Under) Benchmark Median	\$42.01

Sources: MCPP Benchmark Study; PSBH General Ledger Payroll Records

12.3: Nursing Registry: PSBH management should complete a study that would evaluate the operational feasibility of reducing the nursing registry costs by 50%. This reduction would come from implementing Recommendation 7 related to hiring and pay differential policies. Management should also look into the cost/benefit of implementing a computerized acuity-based system for determining staffing needs. Such systems are in place in many hospitals across the country and give nurse managers a much better way to prevent the unnecessary use of nursing registry contractors. This change could reduce the cost per patient day by as much as \$39.

12.4: Mental Health Clinicians: PSBH management should complete a study that would evaluate the clinical impact and operational feasibility of reducing the Mental Health Clinician staffing costs by 20%. This change could reduce the cost per patient day by as much as \$18.

Recommendation 13: Evaluate “Make or Buy” for Dietary

PSBH should complete a cost/benefit analysis of procuring patient meals through a purchase-of-service contract with a third party. If it is determined that substantial savings could be realized by outsourcing Dietary, it will most likely be necessary to also close the Cafeteria. Based on a preliminary analysis, this change could potentially reduce the cost per patient day by as much as \$26.

Recommendation 14: Reduce Overhead Costs

PSBH management should complete a study that would project the operational feasibility of reducing the other overhead costs by 25%. This study should carefully evaluate the costs and value of indirect charges being levied by Pierce County. It should also include an examination of Nursing Administration (Department 945), PSBH Administration (940), Housekeeping (615), Business Office (905), and Medical Records (630). The budgets for each of the five departments range from \$200,000 to \$1,000,000 and, along with dietary, constitute the vast majority of overhead expenses. These cost savings will be partially offset by Recommendation 10, to proceed with bond-financed capital improvements. These changes could have a cost per patient day reduction of as much as \$84. Note: If all overhead reductions, including Dietary, were successful, the revised overhead cost per day would be \$304.28, compared with an inflation-adjusted median benchmark figure of \$283.10.

Table 16: Potential Impact of Recommendations

	Current Cost/Day	Savings from higher Census	Cost Reduction	Added Savings	Total Savings/Day	Revised Cost/Day
Actual Cost per Patient Day	\$912.13					\$912.13
Target Cost per Patient Day	\$640.00				\$272.13	\$640.00
Reduce Contracted Physicians	\$35.56	\$3.40	50%	\$16.08	\$19.48	\$16.08
Reduce Nursing Registry	\$86.01	\$8.21	50%	\$38.90	\$47.11	\$38.90
Reduce MH clinicians	\$100.42	\$9.59	20%	\$18.17	\$27.75	\$72.66
Other Direct	\$274.22	\$26.19	0%	\$0.00	\$26.19	\$248.04
Total Direct	\$496.20	\$47.38		\$73.14	\$120.53	\$375.68
Contract Out Dietary	\$38.67	\$3.02	66%	\$23.64	\$26.65	\$12.01
Dietary Manager	\$5.00	\$0.48	0%	\$0.00	\$0.48	\$4.53
Revenue Bond Expense	\$0.00	\$0.00	0%	-\$35.72	-\$35.72	\$35.72
Other Overhead	\$372.25	\$36.22	25%	\$84.01	\$120.23	\$252.02
Total Overhead	\$415.92	\$39.72		\$71.93	\$111.65	\$304.28
Achievable Cost per Day	\$912.13	\$87.10		\$145.07	\$232.17	\$679.95

Source: MCPP Healthcare Consulting calculations

ATTACHMENT A – PUGET SOUND BEHAVIORAL HEALTH COST PER DAY

PSBH Inpatient Mental Health Revenue, Expense and Statistics For the 9 Months Ended September 30, 2002

	Dept. 350 Inpatient Floor 5 Year to Date	Dept. 351 MICA Year to Date	Dept. 398 Inpatient Floor 3 Year to Date	Dept. 410 Medical Unit Year to Date	Direct Subtotal Year to Date
<u>Net Revenue</u>					
Medicare	\$1,352,374	\$129,163	\$138,046	\$2,868	\$1,622,451
Medicaid Other RSN's	\$427,666	\$81,465	\$131,617	-\$480	\$640,268
Pierce County RSN	\$5,368,738	\$0	\$0	\$0	\$5,368,738
Medicaid Physicians	\$179,226	\$39,648	\$41,675	\$2,332	\$262,881
DSH Medicaid	\$112,584	\$14,618	\$61,492	\$0	\$188,694
Insurance	\$397,997	\$58,415	\$142,579	\$8,802	\$607,793
Self Pay	\$160,218	\$18,032	\$85,595	\$3,028	\$266,873
Net Revenue	\$7,998,803	\$341,341	\$601,004	\$16,550	\$8,957,698
<u>Expenses</u>					
Salaries	\$1,753,219	\$269,549	\$479,224	\$289,772	\$2,791,764
Overtime	\$78,744	\$7,974	\$36,659	\$35,261	\$158,638
Benefits	\$415,884	\$69,449	\$126,916	\$53,926	\$666,175
Supplies	\$31,373	\$3,266	\$19,733	\$223	\$54,595
Physician Contract Services	\$202,097	\$29,500	\$125,753	\$0	\$357,350
Nurse Registry	\$464,983	\$88,881	\$310,336	\$169	\$864,369
Other Professional Services	\$58,843	\$17	\$4,134	\$0	\$62,994
Miscellaneous	\$17,065	\$517	\$613	\$1,145	\$19,340
Rental	\$5,741	\$1,695	\$4,184	\$0	\$11,620
Direct Expenses	\$3,027,949	\$470,848	\$1,107,552	\$380,495	\$4,986,844
Space Costs	\$318,741	\$54,570	\$205,379	\$12,928	\$591,618
Indirect Allocation	\$1,421,167	\$116,955	\$521,472	\$178,099	\$2,237,693
Total Indirect Expense	\$1,739,908	\$171,525	\$726,851	\$191,027	\$2,829,311
Laboratory Expense	\$62,219	\$6,569	\$38,986	\$0	\$107,774
Pharmacy Expense	\$280,898	\$29,657	\$176,009	\$0	\$486,564
Dietary Expense	\$437,297	\$50,014	\$269,057	\$0	\$756,368
Total Ancillary Expenses	\$780,413	\$86,241	\$484,051	\$0	\$1,350,706
Total Overhead Expenses	\$2,520,321	\$257,766	\$1,210,902	\$191,027	\$4,180,016
Total Expenses	\$5,548,270	\$728,614	\$2,318,454	\$571,522	\$9,166,861
Excess (Deficit)	\$2,450,533	-\$387,273	-\$1,717,450	-\$554,972	-\$209,163

**Revenue and Expense per Day
For the 9 Months Ended September 30, 2002**

	Total Year to Date	Days	Revenue/ Expense per Day	Benchmark Indicator #
<u>Net Revenue - RSN</u>				
Pierce County RSN	\$5,368,738			
Medicaid Physicians	\$104,838			
DSH Medicaid	\$188,694			
Subtotal RSN Revenue	\$5,662,270	4,008	\$1,412.74	
<u>Net Revenue - Other</u>				
Medicare	\$1,622,451			
Medicaid Other RSN's	\$640,268			
Medicaid Physicians	\$158,043			
Insurance	\$607,793			
Self Pay	\$266,873			
Subtotal Other Revenue	\$3,295,428	6,042	\$545.42	
Net Revenue	\$8,957,698	10,050	\$891.31	
<u>Expenses</u>				
Salaries	\$2,791,764			
Overtime	\$158,638			
Total Payroll Expense	\$2,950,402	10,050	\$293.57	5
Taxes/Benefits	\$666,175	10,050	\$66.29	6
Supplies	\$54,595	10,050	\$5.43	9
Physician Contract Services	\$357,350	10,050	\$35.56	
Nurse Registry	\$864,369	10,050	\$86.01	
Total Clinician Prof Fees	\$1,221,719	10,050	\$121.56	7
Other Professional Services	\$62,994	10,050	\$6.27	8
Miscellaneous	\$19,340			
Rental	\$11,620			
Total Direct Expenses	\$4,986,844	10,050	\$496.20	4
Laboratory Expense	\$107,774			
Pharmacy Expense	\$486,564			
Dietary Expense	\$756,368			
Total Ancillary Expenses	\$1,350,706	10,050	\$134.40	
Space Costs	\$591,618			
Indirect Allocation	\$2,237,693			
Total Indirect Expense	\$2,829,311	10,050	\$281.52	
Total Overhead Expense	\$4,180,016	10,050	\$415.92	10
Total Expenses	\$9,166,861	10,050	\$912.13	2
Excess (Deficit)	-\$209,163			

ATTACHMENT B – BENCHMARK REPORT

Indicator	Facilities	Low	High	Average	Median	2002 PSBH	PSBH	PSBH
							Rank #	Percentile
							(Low performing to High performing)	
Psychiatric Beds	123	25	75	53	55	43	N/A	N/A
Annual Psychiatric Expenses	79	\$2,334,872	\$22,082,860	\$8,271,035	\$8,091,499	\$10,862,023	N/A	N/A
Inpatient Psychiatric Patient Days	123	3,155	27,610	13,076	13,700	12,592	N/A	N/A
Inpatient Psych Admits/Discharges	122	162	3,639	1,221	1,207	1,187	N/A	N/A
<hr/>								
1 Average Length of Stay	122	4.03	71.77	13.27	11.14	10.41	80	65%
2 Cost per Patient Day	79	\$265.47	\$2,215.35	\$656.17	\$611.47	\$912.13	10	12%
3 Cost per Admit/Discharge	79	\$696	\$44,494	\$8,769	\$6,811	\$9,499	20	24%
4 Direct Cost per Patient Day	27	\$161.24	\$1,324.61	\$434.62	\$388.81	\$496.20	7	23%
5 Payroll Expense per Patient Day	77	\$101.21	\$816.23	\$332.69	\$308.52	\$293.57	50	64%
6 Employee Benefits per Patient Day	77	\$6.23	\$253.02	\$70.89	\$62.25	\$66.29	33	42%
7 Clinical Professional Fees per Patient Day	15	\$16.77	\$476.17	\$75.00	\$45.33	\$121.56	2	7%
8 Other Professional Fees per Patient Day	18	\$1.21	\$170.64	\$34.39	\$23.65	\$6.27	14	76%
9 Supplies per Patient Day	27	\$2.35	\$98.31	\$26.66	\$19.45	\$5.43	23	85%
10 Overhead Expense per Patient Day	10	\$201.17	\$415.92	\$278.79	\$270.90	\$415.92	1	0%
11 Clinical Staff Hours per Patient Day	108	1.28	92.15	5.41	3.47	9.20	10	8%
12 Medical Hours per Patient Day	83	0.09	2.20	0.50	0.47	1.12	4	4%
13 Nursing Hours per Patient Day	115	1.28	40.37	4.12	3.00	3.45	33	28%
14 Total Staff Hours per Patient Day	117	4.54	214.86	19.02	15.36	10.72	101	86%

Hospital Facilities with 25-75 Beds, Adjusted for Medical Inflation and PSBH 2002 Actuals

#	Source	Year	Facility Name	City	State	Category	Type	Available Psych Beds	Psych Total Expense	Average Length of Stay	Total Expense/Adj Pt Day
1	CHARS	2001	Affiliated Health Services	SKAGIT	WA	Acute w/Psych	Health District	26	\$5,198,150	9.76	\$888.68
2	CHARS	2001	Harborview Medical Center	SEATTLE	WA	Acute w/Psych	County	61	\$15,043,207	13.19	\$724.46
3	CHARS	2001	Lourdes Counseling Center	Benton	WA	Psych Only	Church Operated	32	\$3,959,481	9.36	\$538.33
4	CHARS	2001	Northwest Hospital	SEATTLE	WA	Acute w/Psych	Non-Profit	27	\$5,417,722	28.02	\$798.92
5	CHARS	2001	Overlake Hospital Medical Center	BELLEVUE	WA	Acute w/Psych	Non-Profit	29	\$4,284,279	4.48	\$596.87
6	CHARS	2000	Providence St. Peter Hospital	WA	WA	Acute w/Psych	Church Operated	26	\$5,410,390	10.21	\$808.05
7	PSBH	2002	Puget Sound Behavioral Health	TACOMA	WA	Psych Only	County	43	\$10,862,023	10.41	\$912.13
8	CHARS	2001	Stevens Healthcare	SNOHOMISH	WA	Acute w/Psych	Health District	25	\$4,340,647	11.39	\$656.61
9	CHARS	2001	Swedish Health Svcs Providence Campus	SEATTLE	WA	Acute w/Psych	Non-Profit	36	\$8,381,737	10.52	\$722.50
10	CHARS	2001	West Seattle Psychiatric Hospital	SEATTLE	WA	Psych Only	Non-Profit	40	\$6,292,927	14.49	\$665.92
11	OSHPD	2000	ALVARADO PARKWAY INSTITUTE BHS	SAN DIEGO	CA	Psych Only	INVESTOR	50	\$2,862,471	9.87	\$549.52
12	OSHPD	2000	BAYVIEW HOSPITAL & MH SYSTEM	SAN DIEGO	CA	Psych Only	INVESTOR	64	\$12,890,871	11.06	\$838.81
13	OSHPD	2000	CALIFORNIA SPECIALTY HOSPITAL	SOLANO	CA	Psych Only	NON-PROFIT	61	\$8,043,432	7.09	\$566.88
14	OSHPD	2000	CANYON RIDGE HOSPITAL	SAN BERNADINO	CA	Psych Only	NON-PROFIT	59	\$8,265,498	5.64	\$570.23
15	OSHPD	2000	CEDAR VISTA HOSPITAL	FRESNO	CA	Psych Only	INVESTOR	52	\$6,499,009	6.30	\$540.82
16	OSHPD	2000	CHARTER ALVARADO BH SYSTEM	SAN DIEGO	CA	Psych Only	INVESTOR	50	\$7,776,454	9.80	\$550.51
17	OSHPD	2000	FREMONT HOSPITAL - FREMONT	FREMONT	CA	Psych Only	INVESTOR	58	\$10,336,140	6.92	\$547.49
18	OSHPD	2000	GATEWAYS HOSPITAL AND MH CTR	LOS ANGELES	CA	Psych Only	NON-PROFIT	55	\$14,413,879	16.51	\$1,331.04
19	OSHPD	2000	KEDREN COMMUNITY MH CENTER	LOS ANGELES	CA	Psych Only	NON-PROFIT	48	\$16,930,657	19.28	\$994.40
20	OSHPD	2000	KNOLLWOOD PSYCH & CHEM DEPEND CTR	RIVERSIDE	CA	Psych Only	INVESTOR	58	\$3,132,357	9.49	\$544.57
21	OSHPD	2000	LANGLEY PORTER PSYCHIATRIC INSTITUTE	SAN FRANCISCO	CA	Psych Only	NON-PROFIT	41	\$14,275,728	7.61	\$2,215.35
22	OSHPD	2000	LOMA LINDA UNIV BEHAV. MEDICINE CTR.	SAN BERNADINO	CA	Psych Only	NON-PROFIT	71	\$11,783,804	6.56	\$642.90
23	OSHPD	2000	MT DIABLO MEDICAL PAVILION	CONTRA COSTA	CA	Psych Only	NON-PROFIT	65	\$9,587,628	7.85	\$695.81
24	OSHPD	2000	SAN JOAQUIN COUNTY MH - PHF	STOCKTON	CA	Psych Only	CITY/COUNTY	40	\$4,586,299	8.06	\$408.36
25	OSHPD	2000	SIERRA VISTA HOSPITAL	SACRAMENTO	CA	Psych Only	INVESTOR	57	\$7,122,822	10.14	\$407.48
26	OSHPD	2000	ST. JOSEPH'S BEHAVIORAL HEALTH CNTR	STOCKTON	CA	Psych Only	NON-PROFIT	27	\$4,905,070	8.01	\$568.90
27	OSHPD	2000	STANISLAUS CO MENTAL HEALTH SVCS	MODESTO	CA	Psych Only	CITY/COUNTY	67	\$12,111,833	6.15	\$623.84
28	OSHPD	2000	SUTTER CENTER FOR PSYCHIATRY	SACRAMENTO	CA	Psych Only	NON-PROFIT	69	\$12,267,850		\$694.20
29	OSHPD	2000	VISTA DEL MAR HOSPITAL	VENTURA	CA	Psych Only	INVESTOR	61	\$8,545,444	7.99	\$625.67
30	AHA	2000	45TH STREET MENTAL HLTH CTR	WEST PALM BEACH	FL	Psych Only	Other Non-Profit	44		8.95	
31	AHA	2000	A J MULLEN MEMORIAL HOSPITAL	SHREVEPORT	LA	Psych Only	Investor	28		11.14	
32	AHA	2000	ALLIANCE HOSP OF SANTA TERESA	LAS CRUCES	NM	Psych Only	Investor	72		11.14	

(Note: Washington State hospitals have been shaded yellow.)

Hospital Facilities with 25-75 Beds, Adjusted for Medical Inflation and PSBH 2002 Actuals

#	Source	Year	Facility Name	City	State	Category	Type	Available Psych Beds	Psych Total Expense	Average Length of Stay	Total Expense/Adj Pt Day
33	AHA	2000	ANACAPA HOSPITAL	PORT HUENEME	CA	Psych Only	Investor	44	\$7,430,327	12.62	\$585.34
34	AHA	2000	ARBOUR H R I HOSPITAL	BROOKLINE	MA	Psych Only	Investor	68		18.92	
35	AHA	2000	ARBOUR-FULLER HOSPITAL	ATTLEBORO	MA	Psych Only	Investor	46		11.15	
36	AHA	2000	ATLANTIC SHORES HOSPITAL	FORT LAUDERDALE	FL	Psych Only	Investor	74		10.08	
37	AHA	2000	BALDPATE HOSPITAL	HAVERHILL	MA	Psych Only	Investor	59		11.14	
38	AHA	2000	BAYVIEW HOSP & MENTAL SYSTEM	CHULA VISTA	CA	Psych Only	Investor	64		11.14	
39	AHA	2000	BEHAVIORAL HLTHCARE-COLUMBUS	COLUMBUS	IN	Psych Only	Investor	60		11.15	
40	AHA	2000	BHC CEDAR VISTA HOSPITAL	FRESNO	CA	Psych Only	Investor	61		11.14	
41	AHA	2000	BHC FOX RUN HOSPITAL	SAINT CLAIRSVILLE	OH	Psych Only	Investor	65	\$12,111,941	11.14	\$611.50
42	AHA	2000	BHC SIERRA VISTA HOSPITAL	SACRAMENTO	CA	Psych Only	Investor	72		11.14	
43	AHA	2000	BHC WINDSOR HOSPITAL	CHAGRIN FALLS	OH	Psych Only	Investor	50	\$9,316,878	11.14	\$611.46
44	AHA	2000	BROOK LANE HEALTH SERVICES	HAGERSTOWN	MD	Psych Only	Other Non-Profit	65	\$9,663,573	7.55	\$910.80
45	AHA	2000	BROOKHAVEN HOSPITAL	TULSA	OK	Psych Only	Investor	40	\$5,807,628	17.73	\$484.37
46	AHA	1999	BROWN CNTY HUMAN SERVICES	GREEN BAY	WI	Psych Only	County	74	\$7,160,082	6.62	\$583.54
47	AHA	2000	CALIFORNIA SPECIALTY HOSPITAL	VALLEJO	CA	Psych Only	Investor	61		11.14	
48	AHA	2000	CANYON RIDGE HOSPITAL	CHINO	CA	Psych Only	Investor	59		11.14	
49	AHA	2000	CARILION SAINT ALBANS HOSPITAL	RADFORD	VA	Psych Only	Other Non-Profit	60	\$8,839,250	5.17	\$929.66
50	AHA	2000	CAROLINA CENTER FOR BEHAV HLTH	GREER	SC	Psych Only	Investor	56	\$3,889,424	7.88	\$265.47
51	AHA	2000	CENTENNIAL PEAKS HOSPITAL	LOUISVILLE	CO	Psych Only	Investor	54	\$2,334,872	9.81	\$424.99
52	AHA	2000	CENTRAL OK COMM MENTAL HLTH	NORMAN	OK	Psych Only	State	28		11.14	
53	AHA	2000	CHARIS HOSPITAL	BATON ROUGE	LA	Psych Only	Investor	55		11.14	
54	AHA	2000	CHARLES RIVER HOSPITAL	WELLESLEY	MA	Psych Only	Investor	62		11.14	
55	AHA	2000	CHARTER NORTH STAR HLTH SYST	ANCHORAGE	AK	Psych Only	Investor	34	\$6,335,477	11.14	\$611.47
56	AHA	2000	CLARION PSYCHIATRIC CENTER	CLARION	PA	Psych Only	Investor	52	\$9,689,553	11.14	\$611.48
57	AHA	2000	COLISEUM PSYCHIATRIC CENTER	MACON	GA	Psych Only	Investor	31	\$5,776,465	6.98	\$702.22
58	AHA	2000	COLORADO PSYCHIATRIC HOSPITAL	DENVER	CO	Psych Only	State	49	\$9,130,540	11.15	\$611.47
59	AHA	2000	CONN MENTAL HEALTH CENTER	NEW HAVEN	CT	Psych Only	State	36	\$6,708,152	11.14	\$611.50
60	AHA	2000	CRAIG HOUSE CENTER	BEACON	NY	Psych Only	Investor	61		11.14	
61	AHA	2000	CROSSROADS REGIONAL HOSPITAL	ALEXANDRIA	LA	Psych Only	Investor	70		11.14	
62	AHA	2000	CUMBERLAND HALL HOSPITAL	HOPKINSVILLE	KY	Psych Only	Investor	48	\$8,944,202	20.67	\$366.46
63	AHA	2000	EASTERN OREGON PSYCHIATRIC CTR	PENDLETON	OR	Psych Only	State	60	\$8,575,498	71.77	\$493.58
64	AHA	2000	EL PASO PSYCHIATRIC CENTER	EL PASO	TX	Psych Only	Other Non-Profit	52	\$9,884,663	9.00	\$681.33

Hospital Facilities with 25-75 Beds, Adjusted for Medical Inflation and PSBH 2002 Actuals

#	Source	Year	Facility Name	City	State	Category	Type	Available Psych Beds	Psych Total Expense	Average Length of Stay	Total Expense/Adj Pt Day
65	AHA	1999	FOND DU LAC CNTY MENTAL HLTH	FOND DU LAC	WI	Psych Only	County	25	\$2,592,252	6.38	\$498.80
66	AHA	2000	FOREST VIEW HOSPITAL	GRAND RAPIDS	MI	Psych Only	Investor	62		11.14	
67	AHA	2000	FOUR WINDS SYRACUSE	SYRACUSE	NY	Psych Only	Investor	50	\$9,961,378	15.39	\$486.37
68	AHA	2000	GLEN OAKS HOSPITAL	GREENVILLE	TX	Psych Only	Investor	46	\$6,024,650	7.02	\$479.59
69	AHA	2000	GREENLEAF CENTER	VALDOSTA	GA	Psych Only	Investor	70		11.14	
70	AHA	2000	HAMILTON CENTER	TERRE HAUTE	IN	Psych Only	Other Non-Profit	45	\$8,385,190	11.14	\$611.48
71	AHA	2000	HARBOR OAKS HOSPITAL	NEW BALTIMORE	MI	Psych Only	Investor	64		11.14	
72	AHA	2000	HARBOR VIEW MERCY HOSPITAL	FORT SMITH	AR	Psych Only	Church Operated	57	\$8,151,664	13.38	\$433.09
73	AHA	2000	HEARTLAND BEHAVIORAL HLTH SERV	NEVADA	MO	Psych Only	Investor	40		12.57	
74	AHA	2000	HENRY FORD KINGSWOOD HOSPITAL	FERNDALE	MI	Psych Only	Other Non-Profit	64		11.14	
75	AHA	2000	HILL CREST BEHAVIORAL HEALTH	BIRMINGHAM	AL	Psych Only	Investor	55	\$12,714,643	13.54	\$780.90
76	AHA	2000	INTEGRIS MENTAL HEALTH SYSTEM	SPENCER	OK	Psych Only	Other Non-Profit	44		11.14	
77	AHA	2000	LAS PALMAS BEHAVIORAL CENTER	EL PASO	TX	Psych Only	Investor	49	\$4,027,491	4.03	\$1,039.89
78	AHA	2000	LAUREATE PSYCH CLINIC & HOSP	TULSA	OK	Psych Only	Other Non-Profit	75		11.14	
79	AHA	2000	LOURDES COUNSELING CENTER	RICHLAND	WA	Psych Only	Church Operated	32	\$5,962,802	11.15	\$611.51
80	AHA	2000	MEMORIAL BEHAVIORAL HEALTH	GULFPORT	MS	Psych Only	Investor	60		11.15	
81	AHA	2000	MONTGOMERY CNTY EMERGENCY SERV	NORRISTOWN	PA	Psych Only	Other Non-Profit	63	\$10,125,713	8.00	\$476.19
82	AHA	2000	MOUNTAIN VIEW HOSPITAL	GADSDEN	AL	Psych Only	Investor	68		11.14	
83	AHA	2000	NEVADA MENTAL HEALTH INSTITUTE	SPARKS	NV	Psych Only	State	52	\$22,082,860	15.32	\$1,275.65
84	AHA	2000	NEW YORK STATE PSYCH INSTITUTE	NEW YORK	NY	Psych Only	State	58	\$10,807,578	11.14	\$611.46
85	AHA	2000	NORTH ALABAMA REGIONAL HOSP	DECATUR	AL	Psych Only	State	74	\$8,091,499	58.71	\$298.95
86	AHA	2000	NORTH MISSISSIPPI STATE HOSP	TUPELO	MS	Psych Only	State	50	\$7,146,249	37.27	\$410.02
87	AHA	2000	NORTHSHORE PSYCHIATRIC HOSP	SLIDELL	LA	Psych Only	Investor	58	\$5,547,031	7.25	\$974.36
88	AHA	2000	ORANGE COUNTY COMM HOSPITAL	BUENA PARK	CA	Psych Only	Investor	55		11.14	
89	AHA	2000	OSU&HARDING BEHAVIORAL HEALTH	WORTHINGTON	OH	Psych Only	Other Non-Profit	56	\$10,434,903	11.14	\$611.52
90	AHA	2000	PALMETTO LOWCOUNTRY BEHAV HLTH	CHARLESTON	SC	Psych Only	Investor	60	\$8,613,759	7.20	\$710.35
91	AHA	2000	PARKSIDE HOSPITAL	TULSA	OK	Psych Only	Other Non-Profit	40		11.15	
92	AHA	2000	PATHWAYS	JACKSON	TN	Psych Only	Other Non-Profit	25	\$4,658,439	11.14	\$611.50
93	AHA	2000	QUEST HOSPITAL	AMARILLO	TX	Psych Only	Investor	44		11.14	
94	AHA	2000	RAINBOW MENTAL HEALTH FACILITY	KANSAS CITY	KS	Psych Only	State	60	\$6,682,532	32.08	\$616.36
95	AHA	2000	RESEARCH PSYCHIATRIC CENTER	KANSAS CITY	MO	Psych Only	Other Non-Profit	75	\$10,750,532	8.38	\$543.31
96	AHA	2000	RICHLAND HOSPITAL	MANSFIELD	OH	Psych Only	Other Non-Profit	44		11.14	

Hospital Facilities with 25-75 Beds, Adjusted for Medical Inflation and PSBH 2002 Actuals

#	Source	Year	Facility Name	City	State	Category	Type	Available Psych Beds	Psych Total Expense	Average Length of Stay	Total Expense/Adj Pt Day
97	AHA	2000	RIO GRANDE STATE CENTER	HARLINGEN	TX	Psych Only	State	55	\$13,744,971	10.72	\$986.72
98	AHA	2000	ROCKFORD CENTER	NEWARK	DE	Psych Only	Investor	75		7.00	
99	AHA	2000	ROYAL OAKS HOSPITAL	WINDSOR	MO	Psych Only	Investor	41		10.33	
100	AHA	2000	RYE HOSPITAL CENTER	RYE	NY	Psych Only	Investor	34	\$4,761,787	64.66	\$454.59
101	AHA	2000	SAVANNAS HOSPITAL	PORT ST LUCIE	FL	Psych Only	Investor	70		11.14	
102	AHA	2000	SILVER HILL HOSPITAL	NEW CANAAN	CT	Psych Only	Other Non-Profit	64		11.14	
103	AHA	2000	SOUTHERN WINDS HOSPITAL	HIALEAH	FL	Psych Only	Investor	60		11.15	
104	AHA	2000	SPRING BROOK BEHAVIORAL SYST	TRAVELERS REST	SC	Psych Only	Investor	44	\$4,019,938	11.73	\$1,268.92
105	AHA	2000	SPRINGBROOK HOSPITAL	BROOKSVILLE	FL	Psych Only	Other Non-Profit	45	\$4,038,407	7.02	\$403.40
106	AHA	2000	STONY LODGE HOSPITAL	OSSINING	NY	Psych Only	Investor	61	\$12,525,047	21.33	\$522.92
107	AHA	2000	SUMMIT HOSP OF NW LOUISIANA	BOSSIER CITY	LA	Psych Only	Investor	54		11.14	
108	AHA	2000	SUNRISE CANYON HOSPITAL	LUBBOCK	TX	Psych Only	Other Non-Profit	30	\$3,636,053	10.26	\$451.52
109	AHA	2000	SUTTER CENTER FOR PSYCHIATRY	SACRAMENTO	CA	Psych Only	Other Non-Profit	69	\$10,126,243	7.38	\$485.09
110	AHA	2000	THE PAVILION	CHAMPAIGN	IL	Psych Only	Investor	46		11.15	
111	AHA	2000	THREE RIVERS CENTER FOR HEALTH	WEST COLUMBIA	SC	Psych Only	Investor	66		11.14	
112	AHA	2000	UPPER SHORE COMM HLTH CTR	CHESTERTOWN	MD	Psych Only	State	40	\$5,972,632	49.16	\$553.53
113	AHA	2000	VAN NUYS HOSPITAL	VAN NUYS	CA	Psych Only	Investor	41		11.14	
114	AHA	2000	VERMILION HOSPITAL	LAFAYETTE	LA	Psych Only	Other Non-Profit	54		11.14	
115	AHA	2000	VERMONT STATE HOSPITAL	WATERBURY	VT	Psych Only	State	54	\$9,966,760	69.70	\$638.40
116	AHA	2000	VISTA HEALTH	FAYETTEVILLE	AR	Psych Only	Investor	49	\$9,130,540	11.15	\$611.47
117	AHA	2000	WABASH VALLEY HOSPITAL	WEST LAFAYETTE	IN	Psych Only	Other Non-Profit	70		11.14	
118	AHA	1999	WAUKESHA CNTY MENTAL HLTH CTR	WAUKESHA	WI	Psych Only	County	28	\$3,990,528	6.24	\$658.61
119	AHA	2000	WESTWOOD LODGE HOSPITAL	WESTWOOD	MA	Psych Only	Investor	65	\$16,688,840	16.90	\$565.88
120	AHA	2000	WOODRIDGE HOSPITAL	JOHNSON CITY	TN	Psych Only	Other Non-Profit	65	\$8,050,451	5.61	\$386.00
121	AHA	2000	WOODSIDE HOSPITAL	NEWPORT NEWS	VA	Psych Only	Investor	68		11.14	
122	AHA	2000	WYOMING BEHAVIORAL INSTITUTE	CASPER	WY	Psych Only	Investor	62	\$6,872,084	17.24	\$442.96
123	AHA	2000	YALE-NEW HAVEN PSYCH HOSP	NEW HAVEN	CT	Psych Only	Other Non-Profit	66		11.14	

ATTACHMENT C – CLINICAL AND OPERATIONAL EVALUATION

Background

The clinical and operational assessment for the PSBH Performance Review Project for Pierce County included several site visits and interviews with eleven key managers of PSBH between October 29 and November 18, 2002. The observation tour included all five floors in both the North and South buildings, both inpatient units, the Crisis Triage center, and the Soundview building including radiology. A follow-up review of clinical and operational findings was conducted with some members of the PSBH leadership team and the Chief of Clinical Services in mid-November.

Interviewees described their operations, including any information on the cost structure and staffing levels, past efforts to reduce costs, current and proposed quality improvement and cost effectiveness activities, and communication and coordination activities with other departments. Findings from these site visits and interviews are summarized below.

General Interview Themes and Summary Findings

- 1. Strategic actions taken to reduce cost and increase revenue:** RSN and PSBH leadership have systematically closed services that were not linked to the mission of the RSN or that were not cost effective for this population of patients. Strategic efforts have also been taken to improve reimbursement through successful accreditation and certification surveys.
 - The start-up and transition time since the RSN purchased PSBH in August 2000 has been focused on closing unnecessary services and becoming certified, accredited and licensed. PSBH managers and staff are just now getting to the point where the environment is more stable.
 - RSN/PSBH management has closed several large programs and services between July 2001 and March 2002, including the inpatient and outpatient Detox and Chemical Dependency units, the Emergency Room/Receiving Center, the Dual-Diagnosis program, and the laboratory. This has taken significant management time and focus.
 - PSBH has undergone numerous successful accreditation or regulatory surveys between September 2001 and October 2002, including Washington Department of Health (DOH) audits, a Joint Commission for the Accreditation of Healthcare Organizations (JCAHO) survey, an Office of Civil Rights audit, and Board of Pharmacy and Radiology, and federal Center for Medicare and Medicaid Services (CMS) certification surveys. All of these accreditation and regulatory efforts

were undertaken to address requirements for licensure (DOH) or reimbursement (CMS) or to demonstrate and improve the quality of care provided (JCAHO).

- Past practice has been to be “gentle” in retaining staff from programs or services that have been closed in order to maintain and improve staff morale and decrease turnover. No new positions have been created but staff has been transferred to other vacant positions within PSBH.

2. Operational actions taken to improve cost effectiveness and quality: PSBH leadership has identified and implemented changes to improve financial performance and clinical operations. In addition to the service and program closures listed above, PSBH has:

- PSBH has terminated or reduced various contracts, including the ER physician’s contract (terminated January 2002); the ORYX payments (terminated February 2002); reduced the laundry, infection control and contracted psychiatrist contracts; and three of the RN agency contracts were renewed with a rate of increase that was 60% lower than requested.
- Operational costs were reduced by eliminating the night receptionist position, transferring one nursing FTE to a permanent “float” position, and not filling vacant positions. PSBH has successfully recruited and filled permanent staff positions to reduce agency costs, optimized trash compacting, and implemented energy conservation efforts.
- Quality and cost effectiveness were improved through the implementation of the PYXIS Medication Dispensing System. PSBH has also improved the admissions process to identify the patients’ payors earlier in the process, and implemented a dietary inventory system.

3. Cost reduction and quality improvement efforts currently in process: PSBH leadership has continued to identify and conduct cost reduction activities. Below are listed the activities still in process as of October 2002.

- Continuing to build the nursing care teams on 5th and 3rd floor and implementation of additional quality indicators to be tracked on a monthly basis.
- Proposed staff and management reductions.
- Increasing the salaried psychiatric MD load to decrease contract psychiatric hours.
- Instituted a process weekly review of patient care that includes communication and coordination between inpatient, CTC and RSN care managers.
- Increasing staff skills in areas such as blood drawing to improve flexibility and scope of functions.

- Reviewing the use and capacity of medical transcription.
- Continuing to hire more permanent nursing staff to reduce the agency costs.
- Temporary suspension of the partial hospitalization program for evaluation.

4. Current operational issues to be addressed: The following operational issues still need to be addressed to reduce the cost per day to benchmark median levels.

- While some financial and utilization reports are available, PSBH managers lack the financial and utilization management systems required to monitor a number of key management indicators. This includes items such as staffing hours per day, supply costs, revenue and direct expense per patient day, and allocated indirect costs. The monthly reports received by the Chief of Clinical Services contain budget and expense information by department, but no analyses of financial information (e.g. labor hours by type of staff or supply cost per patient day) were observed. In addition, there was no evidence of expense projections to assist the management team in planning for and directly managing their costs.
- Continued instances of sub-optimized billing operations, such as inability for general medical services physician assistants and nurse practitioners to be reimbursed for initial assessments in CTC, and perceived lack of comprehensiveness of billing for supplies or services provided to patients.
- Delays in discharges due to difficulty in placement in the community and lack of financial incentives or clear accountability for discharges which create longer than medically necessary LOS. All discharge planning activities need to be strengthened.
- Until October, standard ratios were used to determine staffing levels and use of agency staff. Currently, acuity and the daily census are used to determine the need for temporary or agency staff. There has not been a plan with projections that would assist in managing staffing, or staffing decisions that are tightly driven by patient acuity and census.
- Some functions of nursing staff increase the staff hours (and cost) per day, such as court testimony and some RN escorting of patients being transferred by ambulance.
- The current levels of management and support staff is greater than needed for the current number of PSBH inpatient beds.
- It is important to maintain direct/frontline staff ratios due to a) high acuity of medical and psychiatric conditions, and b) DOH finding of the need to improve nursing assessments.

5. Current Human Resource issues to be addressed: The following human resources issues need to be addressed to reduce the cost per day to benchmark median levels.

- Nursing salary range and benefit package are good. However, some county human resource policies and procedures constrain the ability to hire and retain the best staff including no allowance for shift or weekend differentials, and the extra hire policy that constrains ability to create float pools for nursing staff to further reduce agency costs.
- Restrictions and parameters for return to work and staff termination processes and long timeframes for hiring process constrain PSBH nursing managers' ability to respond quickly to staffing needs.
- There is currently a lack of integration, regular communication, and coordination among the CTC, PSBH, and RSN care managers. Several examples were shared including occasionally not being invited to attend staffing conferences for PSBH patients and lack of consistent policies and procedures between the inpatient units and CTC.

Staffing and Observation Tool:

Unit or Department	Staffing/Scheduling Model	Issues & Unique Features
General Medical Services Group	1.2 FTEs of FP and FP/Addiction MDs FTEs – PAs FTE – NP	Also provide initial assessment for CTC unit
Facility Management	1 FTE – Chief of Clinical Services (MW) 1 FTE – QI Manager (Betty Mencke) 1 FTE – UM tech	
Medical staff	1 FTE – Medical director (Dr. Sindorf) 2 FTE – staff psych MDs 3 FTE – Contract Psych MDs 3 FTE – Pharmacy; 1-Director, 1-Pharm, 1-tech	Court Contract Neural Psychiatric Consultant Physical Therapy contract
Nursing Administration	1 FTE – Nursing Admin. (E. McGorry) 1 FTE – clerk/scheduler 2 FTE – Radiology Techs FTE – RNs House Supervisors .7 FTE – staff development/PHA(T.V.) 1 FTE – Nurse Manager (G. H.) 4 FTE – office assistant 3.6 FTE – billing/clerk 1 FTE – BHS float (1.4 FTE)	Nursing Administrator is liaison w/ Crisis Triage Center & Quest Lab functions

Unit or Department	Staffing/Scheduling Model	Issues & Unique Features
Patient Units 3 rd Floor (effective FTE to cover 24/7)	5 FTEs – RN (7 FTEs) 3 FTEs – LPN (4.2 FTEs) 2 FTEs – BHS (2.8 FTEs) 6 FTEs – CNAs (8.4 FTEs)	Two Treatment Teams- PsychMD/RN/SSW Team RN assigns CNA or LPN or BH spec. to patient 3 rd floor not CMS certified until 10/02 High use of agency staff No shift or weekend differential
Patient Units 5th Floor	10 FTEs – RN (14 FTEs) 4 FTEs – LPN (5.6 FTEs) 4 FTEs – BHS (5.6 FTEs) 5 FTEs – CNAs (7 FTEs)	Three Treatment Teams- PsychMD/RN/SSW Team RN assigns CNA or LPN or BH spec. to patient High use of agency staff No shift or weekend differential
Behavioral Health Services	1 FTE – BH Administrator (J. M.) 5 FTE – SSWs (BA level) 3 FTE – RTs & BA –Therapeutics 0.5 FTE – OT	Speech Therapy contracts
Learning Center (reports to J. M.)	1 FTE – Manager (J. W.) 5 FTE – Counseling (4 MA, 1BA) 1 FTE – Intake for Partial Hospitalization 0.3 FTE – staff development	
Medical Records	1 FTE – Manager 5 FTEs – RAs	

ATTACHMENT D – THREE-YEAR FINANCIAL/UTILIZATION PROJECTIONS

	1-12/2001	1-12/2002 Est	1-12/2003	1-12/2004	1-12/2005	Assumptions
Section 1: Revenue Adjustments						
Revenue and Reserves	\$65,804,856	\$58,888,240	\$58,888,240	\$58,888,240	\$58,888,240	Assume no additional cuts
Reduction in RSN Funding 7-12			-\$636,988	-\$950,146	-\$1,259,713	Per 10/02 Pierce Briefing Paper
Reduction in RSN Funding 1-6			-\$950,146	-\$1,259,713	-\$1,566,229	Per 10/02 Pierce Briefing Paper
Net Revenue	\$65,804,856	\$58,888,240	\$57,301,107	\$56,678,381	\$56,062,298	

Section 2: Western State Hospital Projected Impact

Annual Bed Day Reduction	-13,870	-20,075	-25,915	Per WSH data
Estimated Ratio of Days to Clients	30	30	30	Preliminary Estimate
Estimated Clients	462	669	864	
Annual Value of Bed Days	\$6,740,820	\$9,756,450	\$12,594,690	
Disposition of WSH Clients				
Triaged Adult Resid Tx %	16%	14%	12%	Preliminary Estimate
Triaged Supported Housing %	12%	10%	8%	Preliminary Estimate
Triaged Acute Inpatient %	10%	10%	10%	Preliminary Estimate
Triaged Intensive Outpatient %	25%	25%	25%	Preliminary Estimate
Triaged Outpatient %	37%	41%	45%	Preliminary Estimate
Total	100%	100%	100%	
Supported Housing served in Intensive Outpatient	6%	5%	4%	Preliminary Estimate
Supported Housing served in Outpatient	6%	5%	4%	Preliminary Estimate
Disposition of WSH Clients				
Triaged Adult Resid Tx	74	94	104	
Triaged Supported Housing	55	67	69	
Triaged Acute Inpatient	46	67	86	
Triaged Intensive Outpatient	116	167	216	
Triaged Outpatient	171	274	389	
Total	462	669	864	
Intensive Outpatient in Supported Housing	28	33	35	
Outpatient in Supported Housing	28	33	35	

Section 2: Western State Hospital Projected Impact (continued)

Service Utilization	Units	Units/Client				Follow-Up Triage to:
Triaged WSH to Adult Resid Tx	Days/Episode	120	8,880	11,280	12,480	Supported Housing
Triaged WSH to Supp Housing	Days/Episode	365	20,075	24,455	25,185	N/A
Triaged WSH to Acute IP	Days/Episode	10	460	670	860	Adult Resid Tx
Triaged WSH to Intensive OP	Hours/Yr	150	21,600	30,000	37,650	N/A
Triaged WSH to Outpatient	Hours/Yr	50	9,950	15,350	21,200	N/A
Triaged ARTF to Supp Housing	Days/Episode	245	18,130	23,030	25,480	
Triaged Acute IP to ARTF	Days/Episode	180	8,280	12,060	15,480	
Triaged ARTF to Supp Housing	Days/Episode	175	8,050	11,725	15,050	

Service Cost	Units	Unit Cost				
Triaged Adult Resid Tx	Days	\$130.00	\$2,230,800	\$3,034,200	\$3,634,800	Preliminary Estimate
Triaged Supported Housing	Days	\$50.00	\$2,312,750	\$2,960,500	\$3,285,750	Preliminary Estimate
Triaged Acute Inpatient	Days	\$640.00	\$294,400	\$428,800	\$550,400	Preliminary Estimate
Triaged Intensive Outpatient	Hours	\$70.00	\$1,512,000	\$2,100,000	\$2,635,500	Preliminary Estimate
Triaged Outpatient	Hours	\$70.00	\$696,500	\$1,074,500	\$1,484,000	Preliminary Estimate
Total Service Cost			\$7,046,450	\$9,598,000	\$11,590,450	

Section 3: Impact of Changes At PSBH

Current RSN-Responsible Days	6,461	6,461	6,461
Added Days from Section 2	460	670	860
Total Days	6,921	7,131	7,321
Reimbursement Rate	\$680	\$680	\$680
PSBH Costs to the RSN	\$4,706,280	\$4,849,080	\$4,978,280

To approach benchmark

	1-12/2001	1-12/2002 Est	1-12/2003	1-12/2004	1-12/2005	Assumptions
Section 4: Revised Budget						
Revenue	\$65,804,856	\$58,888,240	\$57,301,107	\$56,678,381	\$56,062,298	
Expense Reduction % Needed to Break Even			10.35%	16.58%	21.69%	
Expense						
Crisis & Commitment	\$6,872,793	\$7,669,498	\$6,875,571	\$6,398,228	\$6,005,857	2002 adjusted for Expense Reduction
ITA Judicial	\$1,464,453	\$1,148,196	\$1,029,338	\$957,875	\$899,133	2002 adjusted for Expense Reduction
Crisis/ITA Subtotal	\$8,337,246	\$8,817,694	\$7,904,909	\$7,356,103	\$6,904,990	
PSBH Exp, Net of Insur Pmts	\$8,258,695	\$7,751,966	\$4,706,280	\$4,849,080	\$4,978,280	
Hospital (provided by MHD)	\$3,193,668	\$2,980,852	\$2,672,282	\$2,486,756	\$2,334,256	2002 adjusted for Expense Reduction
Inpatient Services	\$11,452,363	\$10,732,818	\$7,378,562	\$7,335,836	\$7,312,536	
Subtotal Acute Care Services	\$19,789,609	\$19,550,512	\$15,283,471	\$14,691,940	\$14,217,526	
Residential	\$7,964,387	\$4,688,072	\$8,746,325	\$9,905,693	\$10,591,701	2002 plus WSH shift less Reduction
Outpatient Treatment	\$28,140,488	\$26,284,738	\$25,772,309	\$25,102,370	\$24,702,643	2002 plus WSH shift less Reduction
Employment	\$41,125	\$0	\$0	\$0	\$0	
Outpatient Services	\$28,181,613	\$26,284,738	\$25,772,309	\$25,102,370	\$24,702,643	
Ombudsman & Other	\$325,120	\$34,146	\$30,611	\$28,486	\$26,739	2002 adjusted for Expense Reduction
Provider Administration	\$4,807,084	\$3,986,428	\$3,573,763	\$3,325,651	\$3,121,706	
Other Direct Services	\$5,132,204	\$4,020,574	\$3,604,374	\$3,354,138	\$3,148,445	
Subtotal Community Services	\$41,278,204	\$34,993,384	\$38,123,008	\$38,362,201	\$38,442,789	
Total Direct Services	\$61,067,813	\$54,543,896	\$53,406,478	\$53,054,141	\$52,660,315	
Utilization Mgmt & Qual Assur	\$298,488	\$709,662	\$636,200	\$592,031	\$555,725	2002 adjusted for Expense Reduction
Information Services	\$1,693,954	\$1,419,834	\$1,272,856	\$1,184,487	\$1,111,848	2002 adjusted for Expense Reduction
Public Education	\$155,506	\$135,002	\$121,027	\$112,625	\$105,718	2002 adjusted for Expense Reduction
Care Management	\$243,046	\$0	\$0	\$0	\$0	
Subtotal Direct Svc Support	\$2,390,994	\$2,264,498	\$2,030,083	\$1,889,143	\$1,773,291	
RSN Administration	\$2,303,427	\$2,079,846	\$1,864,546	\$1,735,098	\$1,628,693	2002 adjusted for Expense Reduction
Other Admin Costs	\$42,622	\$0	\$0	\$0	\$0	
Subtotal Administration	\$2,346,049	\$2,079,846	\$1,864,546	\$1,735,098	\$1,628,693	
Total Admin & Support	\$4,737,043	\$4,344,344	\$3,894,629	\$3,624,241	\$3,401,984	
Total Expenses	\$65,804,856	\$58,888,240	\$57,301,107	\$56,678,381	\$56,062,298	
Excess (Deficit)	\$0	\$0	\$0	\$0	\$0	

	1-12/2001	1-12/2002 Est	1-12/2003	1-12/2004	1-12/2005	Assumptions
Section 5: Revised Budget without PSBH Cost per Day Reductions						
Revenue	\$65,804,856	\$58,888,240	\$57,301,107	\$56,678,381	\$56,062,298	
Expense Reduction % Needed to Break Even			13.49%	19.81%	25.01%	
Expense						
Crisis & Commitment	\$6,872,793	\$7,669,498	\$6,634,615	\$6,149,961	\$5,750,975	2002 adjusted for Expense Reduction
ITA Judicial	\$1,464,453	\$1,148,196	\$993,264	\$920,707	\$860,975	2002 adjusted for Expense Reduction
Crisis/ITA Subtotal	\$8,337,246	\$8,817,694	\$7,627,879	\$7,070,668	\$6,611,950	
PSBH Exp, Net of Insur Pmts	\$8,258,695	\$7,751,966	\$6,312,852	\$6,504,399	\$6,677,704	
Hospital (provided by MHD)	\$3,193,668	\$2,980,852	\$2,578,631	\$2,390,264	\$2,235,192	2002 adjusted for Expense Reduction
Inpatient Services	\$11,452,363	\$10,732,818	\$8,891,483	\$8,894,663	\$8,912,896	
Subtotal Acute Care Services	\$19,789,609	\$19,550,512	\$16,519,362	\$15,965,331	\$15,524,846	
Residential	\$7,964,387	\$4,688,072	\$8,599,037	\$9,753,937	\$10,435,902	2002 plus WSH shift less Reduction
Outpatient Treatment	\$28,140,488	\$26,284,738	\$24,946,509	\$24,251,514	\$23,829,116	2002 plus WSH shift less Reduction
Employment	\$41,125	\$0	\$0	\$0	\$0	
Outpatient Services	\$28,181,613	\$26,284,738	\$24,946,509	\$24,251,514	\$23,829,116	
Ombudsman & Other	\$325,120	\$34,146	\$29,539	\$27,381	\$25,604	2002 adjusted for Expense Reduction
Provider Administration	\$4,807,084	\$3,986,428	\$3,448,520	\$3,196,608	\$2,989,224	
Other Direct Services	\$5,132,204	\$4,020,574	\$3,478,058	\$3,223,989	\$3,014,828	
Subtotal Community Services	\$41,278,204	\$34,993,384	\$37,023,605	\$37,229,440	\$37,279,846	
Total Direct Services	\$61,067,813	\$54,543,896	\$53,542,967	\$53,194,771	\$52,804,691	
Utilization Mgmt & Qual Assur	\$298,488	\$709,662	\$613,904	\$569,059	\$532,140	2002 adjusted for Expense Reduction
Information Services	\$1,693,954	\$1,419,834	\$1,228,249	\$1,138,526	\$1,064,663	2002 adjusted for Expense Reduction
Public Education	\$155,506	\$135,002	\$116,786	\$108,254	\$101,231	2002 adjusted for Expense Reduction
Care Management	\$243,046	\$0	\$0	\$0	\$0	
Subtotal Direct Svc Support	\$2,390,994	\$2,264,498	\$1,958,938	\$1,815,839	\$1,698,034	
RSN Administration	\$2,303,427	\$2,079,846	\$1,799,202	\$1,667,772	\$1,559,573	2002 adjusted for Expense Reduction
Other Admin Costs	\$42,622	\$0	\$0	\$0	\$0	
Subtotal Administration	\$2,346,049	\$2,079,846	\$1,799,202	\$1,667,772	\$1,559,573	
Total Admin & Support	\$4,737,043	\$4,344,344	\$3,758,140	\$3,483,611	\$3,257,607	
Total Expenses	\$65,804,856	\$58,888,240	\$57,301,107	\$56,678,381	\$56,062,298	
Excess (Deficit)	\$0	\$0	\$0	\$0	\$0	