TO BE OR NOT TO BE?
or, Is It Nobler to Care Than To Be a Part of Managed Care?

by

Robert D. Herman, David O. Renz,
Don Wise, and LeAnn Smith

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Robert D. Herman, Professor of Organizational Behavior, L.P. Cookingham Institute of Public Affairs, Henry W. Bloch School of Business and Public Administration, University of Missouri - Kansas City, 5110 Cherry, Kansas City, Missouri 64110-2499, 816-235-2338 (herman@cctr.umkc.edu)

David O. Renz, Associate Professor of Nonprofit Management and Director, Midwest Center for Nonprofit Leadership, L.P. Cookingham Institute for Public Affairs, Henry W. Bloch School of Business and Public Administration, University of Missouri - Kansas City, 5110 Cherry, Kansas City, Missouri 64110-2499, 816-235-2342 (dorenz@cctr.umkc.edu)

Don Wise, Executive Director, Associated Youth Services, P.O. Box 6145, Kansas City, Kansas 66106, 913-831-2820 (AWISE9@aol.com)

LeAnn Smith, Executive Director, Kansas City, Alliance for Non-Violent Programming, P.O. 6145, Kansas City, Kansas 66106, 913-381-3221

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Summary*
Associated Youth Services (AYS) provides a variety of services to at-risk youth and their families. In recent years its management and board have responded to rapid cuts in state funding and to the introduction of “managed care” in the administration of state social service programs. Readers of this case critique a decision process of core strategic importance: whether to redesign the organization’s mission and vision to reflect a basic paradigm change in the external environment.

Associated Youth Services (AYS) is a nonprofit organization providing a variety of services to at-risk youth and their families. In early 1994 it had a $2.6 million budget, paid staff of 66, and debt of about $265,000 in the form of lines of credit and loans. In January 1995, the budget had grown to $3 million, the paid staff had increased to 87, and by June the debt totaled $850,000. By December, 1996, AYS was considering merger or closure. Debt remained at about $850,000, the budget had been cut by 40% to $1.7 million, and the staff had been reduced by nearly 75% to 22. (Exhibit 1) In part these reductions were a planned response to the introduction of “managed care” into behavioral and mental health services in the state of Kansas. In part, the reductions were reactions to unexpected crises.

*This case was prepared as a basis for discussion rather than to illustrate either effective or ineffective handling of governance issues. Two of the authors, Don Wise and LeAnn Smith, provided the chronology of events set forth here.
History of AYS

AYS is based in Kansas City, Kansas, and began in 1912 as a Mennonite orphanage. In 1972 the Mennonite Board of Missions closed the orphanage and a local non-denominational board was established to oversee the design and delivery of specialized residential programming and support services for behaviorally disordered youth. Over the next 16 years additional community-based programs were developed and the organization expanded significantly, serving youth throughout Kansas City, Kansas and across the state of Kansas, including the communities of Garden City and Salina.

As AYS expanded over the years, it was licensed by the Kansas Department of Health and Environment, Kansas Alcohol and Drug Abuse Services and, most importantly, by the Kansas Department of Social and Rehabilitation Services (SRS), the state agency responsible for a wide range of social services for children and families. AYS was an anchor for a host of services in Kansas City, Kansas. It also networked with organizations throughout metropolitan Kansas City (which includes Kansas City, Missouri and suburban cities in both Kansas and Missouri). For example, AYS was a member of the Coalition for Positive Family Relationships, a partner with Kansas City Consensus, a partner with the Women’s Employment Network, a member of Wyandotte County United Way and the Kansas Children’s Alliance. It provided building space to the Franklin Children’s Center Day Care program; a local school district’s special education preschool; AmeriCorps; the Boys & Girls Clubs of Greater Kansas City; and the Kansas City Alliance for Nonviolent Programming.

Much of the expansion of AYS occurred during the period 1988-1994, following the governing board’s appointment of Don Wise as executive director in 1988. LeAnn Smith joined the AYS board in 1989. At the time she had resigned her full-time paid position and was seeking to do some volunteer work. Don and the board discovered that LeAnn, having more “free” time than other members, was willing to provide more hands-on involvement than was usual at the board level. Given the time, effort, and skills she brought, LeAnn was asked by the board nominating committee to serve as chair in 1991. She agreed to do so. She soon found herself immersed in a capital campaign to raise over $1 million to renovate a building to be used for programs and
administrative offices. Don and LeAnn found that they were a very effective team.

1994

At the outset of the year 1994, the AYS board was relatively small (15 members) and was comprised of two lawyers, a psychologist, social service workers, a teacher, a financial adviser, an accountant, and two young people (one 16 and the other 17) who were in some ways similar to AYS's clients. The board did not include anyone from the metropolitan area's social or economic elite. Its members were predominantly middle-class and viewed themselves as a "working board."

At this time AYS's programs included:

- an alternative middle and high school in Kansas City, Kansas (serving youth who had not succeeded in the "regular" school system with a school-to-work program emphasizing community mentoring, paid work experience, and occupational training);

- a family-focused temporary shelter for adolescents, also in Kansas City, Kansas that worked to preserve and strengthen the youngsters' family by providing intensive case management and after-care, in-home support;

- state-wide therapeutic foster care programs, including juvenile offender foster care and Medicaid foster care for children diagnosed with severe behavioral, emotional or physical disabilities requiring specialized care; and

- a drug and alcohol day treatment program for teens, including counseling for them and their families.

AYS's mission was to provide individualized services to the most troubled youth and their families.

Over 70% of AYS revenues came from state government contracts. Aware that more diversified funding would help to decrease the organization's dependence on government, in early 1994 Don began developing a business plan for a greenhouse. He had just finished an entrepreneurial training
program offered by the Kansas City-based Kauffman Foundation and, regularly observing an unused greenhouse near the AYS office, proposed the development of a school-to-work training program to be known as the Power Plant. It would generate unrestricted revenue while providing employment training for students in the alternative high school. The program was to be self-funding and would provide an important educational opportunity for many of the youth AYS served. With the approval of the board, AYS rented the greenhouse. Meantime, the capital campaign was moving into its final phases, and building renovations were scheduled to be completed in October.

Although things were going well, by mid-1994 Don and the board became aware that the state was planning to convert certain behavioral health services to a “managed care” approach. Don, the AYS professional staff, and the board agreed that managed care was unlikely to provide the funds necessary to support the personalized therapies that AYS’s young clients required. AYS decided not to seek managed care contracts as a prime contractor—a Managed Care Organization (MCO) in official state terminology. This decision was made on the conviction that managed care would allow AYS to provide only time-limited and shallow, “cookie-cutter” services.

In late August 1994 Don learned that the state would not renew funding for youth employment training. This unexpected decision meant an immediate loss of $350,000 for the alternative school. As Don recalled, “After a decade of stable funding, we were shocked that employment training priorities were shifted without notice or community input.” LeAnn was inclined to stage a protest:

I had become chair of the AYS board in 1991 and for the first couple of years everything went really well. When Don told me about losing the $350,000 I wanted to know who had determined that the funding priorities should be adults instead of youth. I wanted to know who we could appeal to and what we could do to set them straight! The board discussed this action and considered a public protest, but Don’s advice was that such would be unproductive and would sour relations with officials on whom we depended. We decided we would just have to accept this decision.
Because the school year had already started, the board decided to keep the school open in a reduced capacity. Meanwhile, Don and LeAnn were seeking emergency funding from Kansas City area foundations and school districts.

In September 1994, Don and LeAnn realized that their efforts to raise $350,000 in emergency “replacement” money was going to fall short by $175,000. Don met with officials at the local office of SRS, which agreed to fund $60,000 of the shortfall on one condition: that AYS design and provide a new intensive residential program for seven of the state’s most severely emotionally disturbed/behavior-disordered youth. For Don and LeAnn and the AYS staff, the implementation of a new, staff-intensive program did not seem advisable at a time when the change to managed care was in prospect. Also, the staff needed to focus its energies on bringing AYS’s other initiatives to fruition. However, Don and LeAnn were eventually persuaded that SRS viewed this new program as necessary and was committed to seeing it through. LeAnn recalled pushing the state officials until she got a commitment she felt confident about:

> When SRS first approached us with this idea, I laughed. First, we were trying to wrap up our capital campaign, we were opening the Power Plant, and we were trying to raise funds to underwrite the loss to the school program. We had previously entered into agreements with SRS to design and implement a family preservation program and had been screwed when they internalized our program, replicated it statewide, and shut our program down. So we weren’t very trusting. However, SRS was persistent and verbally guaranteed to me that we would receive full funding for the one-on-one therapeutic services these kids required. In fact, at our lunch meeting, I held up my pen after the SRS representative made that commitment and said, ‘Speak into my microphone.’ He did.

In December 1994, AYS moved into its renovated facility and purchased a home for the new residential program, which was named “HomeTies.”

1995

In January, 1995, two new staff were hired for the Power Plant program, and starter plants were ordered to prepare for the spring market. For HomeTies a total of 21 new staff were hired. By February, HomeTies
referrals had begun to be identified, and joint case planning with SRS case managers was underway.

In March SRS began to deny payments for services provided to clients in the HomeTies program, citing ineligibility of HomeTies clients for Medicaid reimbursement for specific therapies. Don learned that area SRS offices were under pressure to keep foster care expenses to a minimum in advance of managed care the following year. SRS staff who developed case plans calling for therapies through HomeTies were being overruled by the very official who had previously committed to fully fund those services. The HomeTies facility was filled by late March. Negotiations on reimbursement continued, but by April lack of an agreement resulted in a cash flow problem at AYS. Although the Power Plant program was operating, sales were very slow due to the wettest spring in 100 years. Gardeners were not buying plants.

Negotiations with SRS over reimbursement for HomeTies services continued. In May SRS agreed to pay for a limited range of therapies from that date through June but refused to reimburse AYS for earlier work. In June SRS agreed to an additional one-time payment of $35,000 for therapies provided at HomeTies in March and April. This reimbursement amounted to less than half the cost of services. At this time the rains subsided and Power Plant sales increased.

Just when it looked as if the sun was beginning to shine on AYS again, SRS indicated that starting July 1, it would refuse to pay for any of the intensive therapies that were the core of the HomeTies program and would provide reimbursement for residential care only. This turn of events took Don completely by surprise:

We were devastated and desperate for some funding. We had put five months into this program and had lost over $100,000. I really hoped that we would be able to come to terms with SRS which would allow us to preserve the quality of the program even at a reduced funding level. The kids were doing great. They had previously bounced from placement to placement, some for nearly a decade and this was their first stable, nurturing environment. Many felt it was their only home. I was also worried about the board. I had
committed to build a program which would work for these really troubled kids and I had jeopardized the health and financial viability of the agency. I was glad that LeAnn had been there with me throughout this process to verify commitments that were made and later broken.

For her part, LeAnn felt betrayed and frustrated:

Screwed again! I trusted and felt so used! I was so angry, but SRS wasn't responsive and didn't seem to care about their commitment. Unfortunately, we had nothing in writing and they were still our major funder. We couldn't risk a showdown, no matter how much I wanted to go to Topeka and raise hell.

Don and LeAnn were careful to keep board members fully informed about negotiations with SRS. To their embarrassment, each unanticipated development revealed that their trust in the agents of the state and belief that the agents were acting in good faith were ill-founded. Don recognized that a miscalculation of this magnitude had the potential to undermine the board's confidence in him, but board members seemed satisfied that in partnership with LeAnn he was achieving all that could be expected under the circumstances. At this time LeAnn attended many meetings with Don and was often at the AYS office for 20 to 30 hours a week.

As the summer progressed, the financial consequences of continuing the HomeTies program became increasingly threatening. Don and LeAnn were meeting with area foundations seeking assistance to maintain the program. Their efforts were not successful. Despite an uptick in sales at the Power Plant in June, its revenues had been disappointing. When the program director was unwilling to develop alternative marketing strategies, he was dismissed.

Don and LeAnn informed SRS officials that AYS would run HomeTies as long as possible. They emphasized that SRS's decision to fund only basic residential services jeopardized the efficacy of the program. Don and LeAnn also met with other provider organizations to discuss transferring programs (staff as well as clients) should AYS fail financially.
In August 1995 Don circulated a memo about organizational change to staff members and the board. (Exhibit 2) This memo was the first of many communications with the staff, including frequent face-to-face meetings, about the imposition of managed care and changes in funding arrangements at the state level. The AYS board also received frequent communications about these issues. The changes that AYS faced implied downsizing. Typically Don and the staff initiated proposals for downsizing that the board considered and approved.

A plan for AYS’s future as a smaller organization began to be developed. It called for AYS to continue providing needed services outside the managed care system and, perhaps, to subcontract with other nonprofit organizations to deliver services. Don and the board discussed the minimally-acceptable configuration of AYS as a downsized organization: what core programs would continue to be operated and how many staff would be required? which staff members would be crucial for program operation? what cash flow position needed to be achieved and what level of debt could be assumed? These and related questions became fundamental concerns. As unexpected crises were faced, the phrase “hitting the wall” helped Don, LeAnn and the board define AYS’s minimal state. If AYS hit the wall or went through the wall, it would be time to seek merger or dissolve the organization.

AYS staff were invited to participate in planning for downsizing because Don and the board believed that staff were, generally, responsible enough to recognize what needed to be done and could effectively participate in hard decisions. Their confidence was often, but not always, rewarded. For instance, one program director took part in the decision to reduce her staff but was unwilling to help identify the individuals who would be terminated. She was let go.

In August the decision was made to close HomeTies, release 15 staff, and transfer the boys to another provider. Late in September, Don, LeAnn and other board members met with lawyers to learn about bankruptcy options. Two additional residential homes housing 17 boys and employing 18 staff were closed and the properties sold to help reduce AYS’s debt and to relieve the
pressure of operating the cash-intensive programming that would be cut under managed care. (Exhibit 3)

In autumn the AYS Fiscal Coordinator (in effect, the chief financial officer) was released due to a reduction in force, and he told AYS's independent auditor that the agency would soon fail. This statement, made without the knowledge of Don or LeAnn, led the auditor to cease audit work without notice to AYS. Don learned about the former Fiscal Coordinator's statement a couple of months later when he called the auditor to find out why nothing was being done on the audit. Don informed LeAnn and the board about this event immediately.

In November the general contractor for AYS's facility renovation, a project which had been completed 11 months earlier, submitted an additional bill of $150,000 for "overage." Don and LeAnn were expecting a small bill in the range of $25,000 to $30,000 plus 5% retainage. As they now learned, the building had been constructed in three phases beginning in 1912 by Mennonite volunteers, and dealing with unusual construction techniques had led to greater costs than anticipated. During the renovation the contractor and the architect had only occasionally indicated that some minor increased costs were being incurred--"nothing unusual," they had said. As Don recalled:

I was on suicide watch! I couldn't believe that with all the planning we had done and with the success of the programs, that we would find ourselves in dire jeopardy. I refused to give up. We had received $500,000 in state tax credits the previous year.1 I had to believe that we would be able to persuade corporations to invest in this community anchor. It would be a hard sell in Wyandotte County, which is the oldest and poorest county in the metropolitan area.

LeAnn was by turns ironic and stoic about the reversals AYS was experiencing:

I love this job -- screwed again!!! Closing HomeTies was devastating. The boys begged us to keep it open -- they wrote us letters, poems, and rap songs. They didn't want to move. And letting go of that many staff was

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1 The Kansas Community Services Act provides deductions in state income tax to corporations making cash contributions to qualified nonprofit organizations in the state.
emotionally wrenching. And then to receive a bill for $150,000 with no supporting documentation was almost more than we could bear. But we wouldn't stop.

Near the end of 1995 AYS received a preliminary proposal from another area nonprofit organization that wanted to acquire it. The AYS board had previously discussed merger as a possible alternative, and this overture received extensive consideration. However, some board members who had professional knowledge of the suitor organization were strongly against a merger with it, and other board members accepted and respected their views. The board was not opposed to the possibility of merger, but it was opposed to this particular arrangement.

1996

As the year 1996 began, a new board chair took office, and LeAnn and the new chair met with the chief executive of the proposing organization. The meeting was cordial but, since the AYS board was opposed to this relationship, nothing came of the discussion. For the time being, the AYS board and staff had determined to continue as an independent 501(c)(3) while making contingency arrangements with other area nonprofits with similar missions and visions. These organizations would pick up AYS programs and services should AYS fail.

Early in the new year the implementation of managed care in Kansas was described at a “pre-bid” conference conducted by the state’s Youth and Adult Services division of SRS. RFPs² would be issued for three new service categories, including foster care, family preservation, and adoption. Both for-profit and nonprofit organizations would be eligible to bid for the contract and to become managed care organizations (MCOs). MCOs could provide the services themselves or subcontract with local providers. The amount of money available for services would be capped by the state and the MCO could realize a profit of up to 20% for managing the system of services, thereby reducing the amount of money available for client services. AYS had earlier decided not to seek any of these contracts directly but expected to subcontract with MCOs.

²An RFP is a Request For Proposal from a funding agency inviting qualified organizations to submit requests for grants or contracts.
In February, Wyandot Mental Health Center, an organization with which AYS had worked closely, was awarded a managed care contract for family preservation services, and AYS received from this organization a subcontract for a range of respite and support services to begin in July.

A director for the Power Plant program had yet to be recruited, and to provide the necessary leadership for the spring market, which had great potential for raising unrestricted revenues, Don and the AYS board concluded that he himself was the only realistic choice. Don continued to carry out AYS executive duties as well. Board members were concerned about this decision, as LeAnn recalled:

This move was a risk since the agency was still undergoing dramatic change. However, we knew that the Power Plant needed someone to come in and take control of preparing plants for market and identifying potential outlets to sell the product. In addition, that person needed to be someone who worked well with kids and could motivate and teach them about something completely new to them. Don was the obvious choice and actually he was thrilled with the opportunity to make this program successful. He was ready to really get his hands dirty and this hands-on work provided a mental respite from the stress he was experiencing during this period.

When spring arrived, the weather was great for growing plants and Power Plant sales were very good. A search for a new Power Plant program director was started in April.

Meanwhile, the transition in leadership of the board had gone smoothly. The new chair, having been on the board for some time, was familiar with issues at the top of the board’s current agenda. Early in the year, Don had spoken with him weekly, sometimes in his office, sometimes in Don’s, but as the dimensions of agency’s crisis subsided somewhat, their communication became less frequent.

Then a new problem materialized. A five-year SRS audit of the $8 million AYS had received for contracted services during that period was completed, and nearly $72,000 in expenses were disallowed. Multi-year audits
and the disallowance of expenses are common occurrences among contracting agencies, and although this amount was very small as a percentage of the AYS contracting total, the timing of the action was obviously poor from the AYS point of view. AYS contested the action. The outcome was not as successful as hoped -- $60,000 in disallowed expenses would have to be returned.

In June a new director for the Power Plant program was hired, and Don returned full-time to the executive director role.

Also in June, the state's Drug and Alcohol Services programs were transferred to MCOs, resulting in a reduction of over $100,000 in the funds allocated to AYS for treating adolescent drug abusers. The fact of the reduction was not a surprise -- notice of some unspecified size of reduction had been issued a few months earlier -- but the amount was larger than expected.

In July the state began preliminary discussions with provider agencies about privatization of foster care services. A deadline of September was set for the receipt of proposals. Foster care services for juvenile offenders were excluded from the managed care plan, and AYS moved to fill its 50 foster homes with juvenile offenders because Don and the staff felt that funding for this spectrum of services was likely to be stable for at least the next 18 months.

In the meantime, negotiations with the general contractor and architect had reduced the amount due on the overage to $123,000--still a figure considerably greater than expected. Because of AYS's negative cash position, arrangements were made to make this payment over three years.

Don and LeAnn continued in their efforts to improve AYS's financial outlook. Don was able to conclude an agreement with the local school district providing $51,000 over the school year, thus assuring adequate funding for services for long-term suspended students. Then, out of the blue, a telephone company inquired about locating a relay tower on the Power Plant site. Don and the board had been hoping to buy the greenhouse, and payment for the relay tower would cover the cost of purchasing the Power Plant property. However, a down payment of $10,000 had to be raised within a two week
period. This goal was achieved by staff and board who, together, sought donations and made personal contributions. AYS renegotiated debt with its bank, combining a credit line and construction loan into a single mortgage of $575,000, thus lowering the interest rate and the monthly payments. The property was purchased.

In November the organization that had attempted to acquire AYS earlier in the year won the state’s foster care managed care contract. In December, the AYS Garden City office was closed (an action that had been decided and approved by the board some months previously as part of the plan related to accommodating to managed care) and its 15 foster care family homes there were transferred to the organization that had won the contract for foster care services in the western Kansas region. Of the 35 remaining AYS foster homes, 24 were serving juvenile offenders, ensuring continuity of funding. AYS also was awarded a subcontract for respite and emergency foster care services by the organization that had been selected as the northeastern Kansas foster care provider.

As December drew to a close, AYS was operating with a smaller budget and with fewer staff than at any time in its recent history. However, the future looked hopeful due to increased funding commitments for the alternative school and secure funding for juvenile offenders. AYS was continuing to aggressively market its $500,000 in state tax credits and was working closely with creditors to establish realistic payment plans.

Postscript - July 1997

Six months later, Don felt that surmounting the difficulties of the past years had produced positive results for AYS:

Over the past several months, we have been able to successfully market our tax credits and have used these contributions (amounting to about $300,000) to strengthen our financial position. Our programs continue to grow and we have brought on board a new Director of Clinical Services to help position us for the future under managed care. After helping the school district secure additional state funds, we received a $200,000 contract with the district for the coming school year. Our budget for the upcoming fiscal year is
a little over $2 million. We currently employ 27 people and our debt is now about $560,000. SRS also reversed its audit position and decided to approve all of the $72,000 in disallowed charges. Because of all of the challenges we faced over the past several years, AYS is stronger, leaner, and better able to respond quickly to changes affecting children in the communities we serve.

The AYS position that foster care services should not be included in Medicaid-funded managed care programs is one that other organizations serving and advocating for children have adopted. The Child Welfare League is now advocating that long-term foster care not be included in Medicaid-funded managed care arrangements.

As LeAnn looked back, she identified with the determination of those who, as problems mounted, continued to focus on the young people who needed AYS services:

What a ride! The past several years have taught me so much about overcoming adversity. The people involved with this organization are amazing, and despite continual challenges, they didn’t give up. They continued to see the bigger picture, knowing that there were always children that needed their help. It took several years for the plans that we had made to come to fruition. But now that they finally have, the rewards are tremendous. And the fact that we continue to grow and be an integral part of the youth service community is the reason that we are here.
Questions for Discussion

1. The idea for the Power Plant project was developed prior to the state's decision to restructure through managed care and was based, at least in part, on the executive director's recognition that AYS was highly dependent upon state funds. What is a governing board's responsibility in monitoring and determining an appropriate diversity in fund sources? What is the appropriate balance of responsibility between the board and the executive director in achieving diverse sources of financial support? What kind of financial information is appropriate for a governing board?

2. What issues should a board consider in deciding whether to participate in particular government-funded programs? Was the decision not to seek prime contractor status in the state's managed care system (as a Managed Care Organization, or MCO) an appropriate decision for AYS?

3. What are the governance and leadership implications of a charitable nonprofit's decision to initiate a new, entrepreneurial start-up business? How might this decision change the design of an agency's board and the way it works with staff? What issues and questions should arise?

4. The AYS board and executive director provided staff with opportunities to be part of the decision making process during the downsizing period. What is the board's role in downsizing? Why would a board want the staff to participate in a downsizing process? What conditions are necessary for successful participative decision making in a downsizing period?

5. Don Wise had several years of success before the events described in this case. Did the AYS board trust him too much? Should the board have looked for someone who had experience in managed care settings? Would a change in top executive leadership during this period have been a good or bad idea?

6. During much of the period covered by this case the board chair was able to spend many hours a week on AYS affairs. In general, however, organizations are not likely to have a chair who is able to give large amounts of time and energy in trying circumstances. In more typical instances where the chair works full time, is it possible for the executive director to ensure that the chair is sufficiently informed about problems and is involved in attempting to solve them? How can and should an executive director work with the board in a downsizing or crisis situation?
## Summary of AYS Financial Position
(July 1 - June 30)
June 30, 1993 - January, 1996

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CHANGE MEMORANDUM 1

TO: Staff and Board
FROM: Don Wise
REGARDING: Organizational Changes

August 1995

In an effort to fully inform each of you of changes affecting AYS internally and externally, I will be submitting a series of memoranda to you over the next several weeks.

These memos will outline specific changes which we are undertaking to position ourselves to operate more effectively with the shift to State Block Grants and within the upcoming managed care system.

It is imperative that each of you read and fully understand the changes underway. READ THIS INFORMATION AND ASK QUESTIONS OF YOUR SUPERVISOR. I will be scheduling a series of group presentations for all staff to clarify issues and help solicit your involvement and support as we go through these changes.

AYS is a unique, neighborhood-based agency which has been serving the Kansas City community for more than 80 years. We have done so by surviving periods of dramatic change and by our ability to design relevant programming to support our community’s children and families.

With the decrease in public dollars, ($2 million reduction in KC SRS allocations this year), the shift to State Block Grants and the advent of Managed Care, it is imperative that we carefully examine our current position in the network of local non-profit and government agencies, schools, businesses, & foundations and work to design partnerships to strengthen our position and adapt our programs to meet increased community needs.

As you may know, states across the nation have filed for HCFA (Health Care Finance Administration) waivers for Medicaid. These waivers allow states to change service eligibility and regulations for federal funds through Medicaid, and allow for a shift in the way states contract for Medicaid-eligible services. Kansas’ waiver may privatize SRS and mental health service, or it may allow for one or more Managed Care Organizations (MCO’s) to oversee a capitated delivery system and contract for Medicaid services. In either event, Medicaid dollars
will be capped within 18 months, so states are currently trying to maximize their federal dollars, in preparation of declining federal support.

The State of Kansas, with its waiver, will be able to contract solely with one MCO, or with several regional MCO's to allocate all funding for children's services, regardless of profit or non-profit status. They will buy services on need alone, as determined by the MCO and the responsibility for maintaining services is on the community. The United Way will probably return to the role of community service supporter in lieu of federal and state dollars.

We have recently learned that Kaw Valley Center, The Kansas Children's Service League and Methodist Youthville intend to join together, in partnership, to attempt to form a Managed Care Organization (MCO) which will extend throughout the state of Kansas.

While we are unsure about the ultimate success of this venture, we are concerned that this initiative will provide the trio with a distinct advantage in approving and issuing Medicaid contracts for service.

We currently receive just over $2 million in State and Federal funding for programs which include some portion of Medicaid reimbursement. They include all Residential Services, Foster Care and Drug and Alcohol and Day Treatment Services. These programs will be at risk if we are unable to secure a portion of the contracts issued. To prepare for the possible loss of these funds, we need to identify minimal program levels which might be achieved which would allow us to survive with reduced funding.

There are other MCO groups forming around the state. One is the Association of Mental Health Centers which is proposing a full range of mental and behavioral health services for youth and adults. They are in need of youth service provider partners and we have entered into preliminary discussions with the Wyandot Mental Health Center to establish an affiliate agreement with them for Day Treatment services for youth needing support services while they stay in their family home.

This affiliate agreement may serve to connect us with them in other ways as we continue through this shift to managed care.

In addition to the statewide and regional MCO's, there are six managed care organizations which operate nationally. Charter is one of them. Charter has bought a company called Mentor, which provides family foster care. They are contracting solely with Mentor for these services in their services areas. We cannot block these changes, nor can we compete effectively with these national systems, because they are for-profit and have huge funding bases. They are already in Wichita and are seeking entry into the SRS placement system.
Our trick is to continue doing business with SRS while we prepare to transfer our contracts to a Managed Care Organization. MCO's are currently in place for mental health and health care and are contracting with the state and hospitals, physicians and clinics for these services. Behavioral health is an off-shoot of health care and child welfare services are a subset of behavioral health. We are a behavioral health provider. Therefore, we and child welfare services are way down the list for funding priority. We need to formalize our treatment services and include mental health support in our program mix.

We operate on a social rehabilitative model, which is not the medical model. Therefore, we need to fundamentally change. This is not a temporary shift. It will effect everything about our business from the way we deliver our services to the way we are reimbursed. Health care reform is happening now.

We have a mandate to deliver child-centered, family-focused, community-based services through an integrated delivery system. We have to stop competing and collaborate or be forced to. We start with an awareness and a common vision. We need to develop our people, promote creativity and innovation. We must be a provider without walls. We need to partner with organizations which have values and purposes similar to our own. We must successfully achieve our program objectives. MCO's will pay for performance alone. Our structure must fit the strategy.

We need to set performance expectations, buy services which we need but do not have, and be accessible, affordable and accountable. We must have computer case management systems, instant access through voice mail and must have a continuous quality improvement system. All of us will be offering a single product. That product will be, "whatever it takes to treat kids in families." Out of home care will only be for safety, security, or medical necessity as determined by the MCO. We must be, "COA to play," which means, accreditation by a national organization such as the Council on Accreditation as a minimum to participate in this system.

In a managed care system, approved providers are now receiving 100% reimbursement for their services. However, there are far fewer services delivered, by fewer providers. Administrative overhead is generally placed at 12%. As systems transfer there is a three-year period of financial instability. This new system is placed on volume, not occupancy (high turnover of clients with low margins).

The economy has driven this shift to managed care. We have effectively moved from child welfare to behavioral health.
Exhibit 2, cont'd

We are beginning to look different from what we were. The changes are only beginning, but we will most likely look like this:

Our agency's vision, mission, purpose and values will focus on youth and family;

We will work in partnership with other organizations (for-profit and not-for-profit) with missions, visions, purposes and values consistent with ours.

Programs will be cost-centers as opposed to income centers.

We will identify unique benefits and features of our agency and programs and deliver value-added service.

We will create outcomes associated with immediate 24-hour a day access (triage), affordability and accountability (success without excuses).

We will move to seek accreditation late in the fall, this effort will involve a series of committees charged with designing and ensuring implementation of systems to achieve standards for programs and services. Each of us will serve on specific committees and will be accountable for ensuring the successful completion of committee assignments.

We will have a full array of services in place by Fall, with the implementation of a Day Treatment program.

Thank You.
Minutes from August 95 were reviewed and approved, as written.

**Board Chair Report:**
In order to liquidate unused assets and reduce debt, the board unanimously approved the following motion (moved and seconded by):

The Board of Directors of Associated Youth Services hereby authorizes Don Wise, AYS Executive Director, to sign on behalf of the organization, the necessary documents to sell the homes located at 5229 Nall in Roeland Park, Kansas and 1612 South 37th Street in Kansas City, Kansas.

In addition, a sale is being coordinated by staff to help free up space in our basement and to get rid of some of our older vans which are no longer being used. The sale will probably be in later October.

The board reviewed and approved for a seat on the board. is an Extension Specialist at the Kansas State University Department of Horticulture, Forestry and Recreation Resources in Manhattan. He specializes in helping greenhouses profitable and has agreed to sit on our Power Plant advisory board.

**Executive Directors Report:**

The Foundation approved a $100,000 grant to help fund our education program (Thank You to ); has granted us $10,000 in unrestricted funding;

Foundation has granted us $10,000 for school to work;

We have an additional $260,000 in grant requests which will be decided this fall.

The Board of Directors of in Olathe, has voted to assume our programs should we fail in our efforts to rebound from our cash crisis. At this time, we are looking more viable than ever and we are hopeful that we will not have to take them up on their generous offer of assistance. However, we will continue to proceed with this initiative as a safety measure and will keep you posted on our further discussions.

The **Playground** was dedicated this past month with the family of a Chiefs’ cheerleader.