Feasibility Study for the Privatization of Alaska Psychiatric Institute

Presentation of Findings and Recommendations

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PCG | Health

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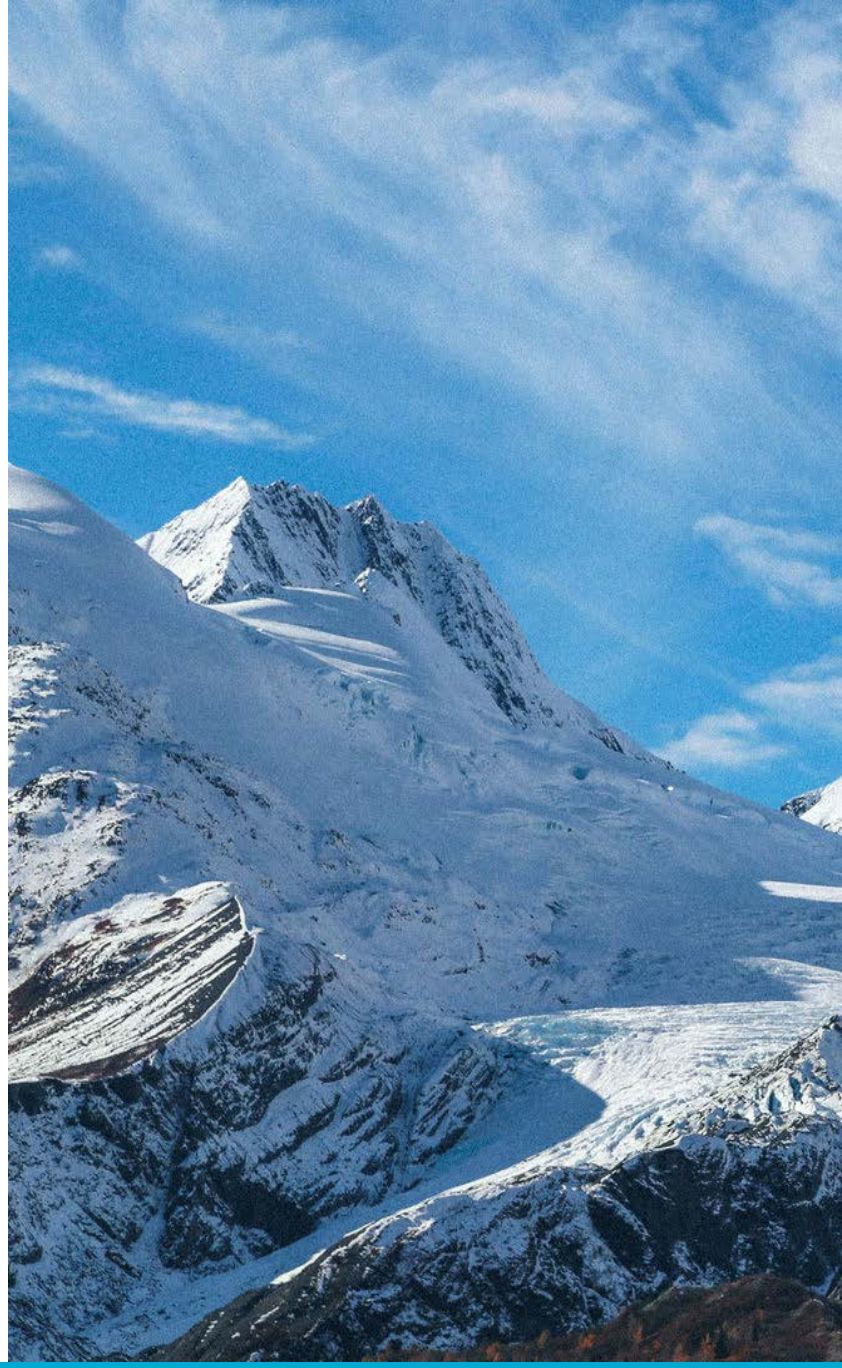

Study Overview

Stakeholder Feedback

PCG conducted on-site and telephonic interviews with representatives from the following organizations

- Alaska Psychiatric Institute
- Alaska Legislature
- Department of Health and Social Services
- Alaska Mental Health Trust Authority
- Department of Corrections
- Department of Administration
- Department of Law
- Alaska Court System
- Tribal and Non-Tribal Community Behavioral Health Providers
- Tribal and Non-Tribal Community Hospitals
- Advocacy Groups and Advisory Boards
- Labor Unions
- Trade Associations

Privatization Options

Option 1: Full Privatization

- All operational aspects privatized

Option 2: Joint Operating Agreement

- Similar to Option 1, but with the implementation of a public corporation or 501(C)(3) to partner with a potential contractor

Option 3: State Management with New Efficiencies

- Alternative to privatization with improved processes and increased efficiencies

Option 4: Component Outsourcing

- Option 4a: Communication Center Outsourcing
- Option 4b: Facility and Material Management Outsourcing
- Option 4d: Psychiatric and Medical Services Outsourcing
- Option 4d: Nursing Services Outsourcing
- Option 4e: Comprehensive Outsourcing
  - All direct care, communication center, facility and material management

Financial Assumptions

Operational Cost Assumptions

- Capital Costs
  - Stay the same under all privatization options
- Profit and Margin
  - 4%: Not-for-Profit, 8%: For-Profit
- Salary and Benefit Benchmarks
  - 13.7% increase under privatization to State salaries as reported in FY15
  - Benefits reduced to compose 22% of total compensation under privatization
- Legal Costs
  - 0.369% of total contract value
- Effects of Overtime
  - Projected reduction in overtime under privatization
  - Private FTE (2080 hrs/yr) VS. State FTE (1950 hrs/yr)

Financial Assumptions

Transition Cost Assumptions

- IT-Related Costs
  - $2.1 million to upgrade Meditech EMR system.
  - Not applicable to Options 1: Full Privatization and Option 2: Joint Operating Agreement
- Retirement Costs
  - Up to $2 million in termination liability under full privatization
  - Scaled proportionately based on number of FTEs affected
- Transition and Contract Monitoring Costs
  - Represents additional costs related to procurement and continual monitoring of contract
  - Estimated at 15% of total contract costs

Revenue Assumptions

- Trended forward for five years at an inflation factor of 1.0298, using FY15 as a baseline
- Projected five-year total revenue is the same under all privatization options

Service Delivery Assumptions

The staffing assumptions used to develop PCG's staffing assumptions synthesize a number of service delivery benchmarks and critical comment specific to API:

- Stakeholder Comment
- Recent Clinical Reviews of API
- Peer State Hospital Comparisons
- Nursing Staff Ratio Guidelines

Stakeholder interviews and recent clinical reviews noted several inefficiencies related to staffing. Areas of focus included:

- Higher administrative overhead; particularly overtime
- Inefficient scheduling of nursing staff, creating shift overlap and unnecessary overtime

PCG also compared FTE per Patient at API to a set of clinical and standard practice benchmarks.

Staffing Requirements

As of FY15, API staffed more FTE per Patient than both peer groups

- Due to economies of scale, it is unlikely API can staff hospitals in the Large Peers; operations more closely resembles Small Peers.
- The Small Peer Group figures are reflective of small hospitals with higher overhead costs (due to scale) that also serve high-acuity patient populations in an acute setting.
- Comparison proved a useful “sniff test” for the plausibility of reductions.

Staff Type	Recommended Privatized Staffing	Recommended State-Managed Staffing	API Baseline	Large Peer Group	Small Peer Group
Admin, Indirect	0.93	1.03	1.16	0.76	1.08
Nursing (RNs and PNAs)	1.84	1.84	1.96	1.74	1.83
Other Medical Staff	0.19	0.19	0.19	0.08	0.18
Rehabilitation	0.09	0.09	0.09	0.02	0.08
Psychology, Psychiatry	0.24	0.24	0.24	0.17	0.22
Social Work, Counseling	0.17	0.17	0.18	0.05	0.17
Total FTE per Patient	3.49	3.59	3.82	2.76	3.57

PCG’s models for private and public options are the same for direct care staff, and differ only for administrative staff and operational services.

Staffing Requirements

PCG reduced FTEs based on the following rationale:

- Administrative
  - Assumes built-in efficiencies for a private entity
  - Assumes API can operate with administrative levels comparable to small peer hospitals, with significantly greater efficiencies under a private operator.
- Nursing
  - Assumes API would operate with nursing staff levels comparable to small peer hospitals
  - A review of staffing ratio guidelines found that there are few established industry standards for psychiatric staffing, except for RNs
    - California requires a 1:6 RNs to patient ratio, API is close
  - PCG calculated minimum staffing requirements for API
    - Identified minimum hours needed to provide 24/7 coverage to five units and also accounted for patients with Close Observation Status (COS)
  - API requires **18.1** nursing staff on the floor at all times, **21.2** nursing staff provided under PCG's "Recommended Staffing Scenario"

NOTE: the task was to model how a contractor **would** staff the hospital to meet minimum standards, not necessarily how a contractor **should** staff it.

Findings and Recommendations

Benefits and Drawbacks: Full Privatization

Option 1: Full Privatization	
Benefits	**Drawbacks**
• More flexible compensation could improve recruitment and retention of qualified employees • DBH no longer provides acute inpatient care, but acts as a contract administrator • Relieves DBH staff of resource intensive, day-to-day management duties • Autonomy of a private contractor to implement efficiencies at API • Only way to implement service delivery improvements	• Cost-prohibitive, even under Recommended Staffing Scenario • Without strong safeguards, further reductions of staff to unsafe levels needed to be financially viable • $2 million in termination liability costs • Necessary contractual requirements could deter potential contractors

Recommendations: Full Privatization

Option 1: Full Privatization

Cost-benefit analysis revealed that, even after significant staff reduction, when all transition costs, contract monitoring costs, and provider margins are considered, this option proves to be more expensive to the state over a likely 5-year contract period. The additional staff reductions needed for budget neutrality would likely diminish the quality of service delivery.

Benefits and Drawbacks: State Management

Option 3: State Management with New Efficiencies

Benefits	Drawbacks
• Opportunity for DBH to implement efficiencies that will improve service delivery while containing costs • The State would retain full control of its only acute inpatient psychiatric hospital • No new additional costs related to procurement, contract administration, legal and margin • Cost-effective under the Recommended Staffing Scenarios • Low termination liability costs (only applicable under Recommended Staffing Scenario) • Highest overall savings to the State under this option	• Higher staffing expenditures related to public employees • More administrative burden associated with implementing changes • Contingent on DBH and API management successfully implementing changes • Potential pushback from labor unions when implementing changes

Recommendations: State Management with New Efficiencies

Option 3: State Management with New Efficiencies

Cost-benefit analysis showed that implementing greater efficiencies in administrative functions and nursing staffing patterns could deliver the greatest amount of cost savings of all the options.

Benefits and Drawbacks: Communication Center Outsourcing

Option 4a: Communication Center Outsourcing

Benefits	Drawbacks
• Lower staffing expenditures due to the shift to a private workforce • A private contractor would require fewer FTEs to provide around-the-clock coverage • No negative impact to service delivery or quality of care • No additional contract administration costs, could be provided in-house • Availability of qualified contractors in Alaska	• Some additional costs related to contracting

Recommendations: Communication Center Outsourcing

Option 4a: Communication Center Outsourcing

While this option involves relatively few hospital personnel, expected changes to compensation and the need for fewer staff under a private contractor would yield the highest percentage of savings for any of the options. These services could also be supplied by a viable marketplace of competing vendors.

Benefits and Drawbacks: Facility and Material Management Outsourcing

Option 4b: Facility and Material Management Outsourcing	
Benefits	**Drawbacks**
• Lower staffing expenditures due to the shift to a private workforce • No negative impact to service delivery or quality of care • No additional contract administration costs, could be provided in-house • Availability of qualified contractors in Alaska	• Some additional costs related to contracting

Recommendations: Facility and Material Management Outsourcing

Option 4b: Facility and Material Management Outsourcing

This option involves roughly a tenth of hospital personnel and appears to deliver only modest cost savings. However, like security services, these maintenance and environmental services can be readily procured from a viable marketplace of vendors.

Benefits and Drawbacks: Psychiatry and Medical Services Outsourcing

Option 4c: Psychiatry and Medical Services Outsourcing

Benefits	Drawbacks
• No reduction in hospital staff for psychiatrists, physicians and mid-level providers • Compensation could potentially increase under a private contractor, improving recruitment and retention • Autonomy of a private contractor to implement efficiencies at API	• High contract related costs counteract savings • Cost-prohibitive under Current and Recommended Staffing Scenarios • Reduction of staff to unsafe levels needed to be financially viable • Lack of clear providers, aside from locum tenens agencies

Recommendations: Psychiatry and Medical Services Outsourcing

Option 4c: Psychiatric and Medical Services Outsourcing

Unlike many categories of hospital staff, levels for psychiatric and medical staff are not typically reduced under privatization, nor is their compensation significantly decreased. In many cases, private entities will increase compensation to better support recruitment and retention of these scarce personnel. While these changes may improve service delivery, they do not yield cost savings. Aside from the potential for increased cost, PCG also cautions against privatizing these services due to concerns over a lack of clear providers, aside from locum tenens agencies.

Benefits and Drawbacks: Nursing Staff Outsourcing

Option 4d: Nursing Staff Outsourcing

Benefits	Drawbacks
• Lower staffing expenditures due to the shift to a private workforce • No negative impact to service delivery or quality of care • Modest cost savings can be found through safe staff reductions • Autonomy of a private contractor to implement efficiencies at API	• With current FTEs, high contract related costs counteract savings • $1,400,000 in termination liability costs • Possible difficulties finding a qualified contractor

Recommendations: Nursing Staff Outsourcing

Option 4d: Nursing Staff Outsourcing

From a fiscal perspective, nursing services are a potentially fruitful area for privatization, due to the fact that nursing staff make up 58% of all API personnel, with the greatest potential for savings through staff reductions and changes to benefits and compensation levels. While cost-benefit analysis showed that modest staff reductions—and associated cost savings—could be achieved without diminishing service delivery, it is not clear that a private provider could significantly lower overall compensation levels for nursing personnel without affecting recruitment and retention. Nor is it clear that a robust marketplace for these services exists in Alaska. Many of the identified improvements in nursing services could also be implemented under current state management.

Benefits and Drawbacks: Comprehensive Outsourcing

Option 4e: Comprehensive Outsourcing

Benefits	Drawbacks
• Lower staffing expenditures due to the shift to a private workforce • Autonomy of a private contractor to implement efficiencies at API • DBH maintains administrative presence in API	• High contract related costs counteract savings • Cost-prohibitive under Recommended Staffing Scenario • Reduction of staff to unsafe levels needed to be financially viable • $1,737,000 in termination liability costs • Possible difficulties finding a qualified contractor

Recommendations: Comprehensive Outsourcing

Option 4e: Comprehensive Outsourcing

Cost-benefit analysis revealed that this option failed to produce cost savings, making it infeasible on fiscal grounds. The higher cost was due largely to expense of privatizing psychiatric services.

Questions?

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