

Executive Summary

This report examines the use of the following alternative approaches to the delivery of inmate health care in the Florida Department of Corrections (FDC):

- Insourcing, in which Department staff are directly responsible for managing health care and delivering services in facilities, while still contracting out for services delivered by providers in the community;
- Outsourcing, in which the Department contracts a private company to provide health care service management, staffing, and coordination of off-site care;
- A hybrid insourcing/outsourcing approach which uses elements of both models; and
- University medical school management of correctional health care.

The report describes the current provision of inmate health care services in the Florida Department of Corrections and compares the cost-effectiveness of these alternative models in delivering inmate health care services. Key report findings include:

Florida has a high incidence of chronic medical and mental health illness in the inmate population.

With the rapid growth in the geriatric offender population, growing awareness of the needs of mentally ill offenders, and changing standards in the treatment of infectious diseases such as Hepatitis C, the system has experienced growing pressure to increase the levels of service and program performance. This in turn is driving the cost of health care in the prison system higher.

The Florida Department of Corrections' (FDC) health care program design is consistent with contemporary professional standards. Health care policies and procedures are based upon generally accepted professional standards promulgated by the American Correctional Association, the National Commission on Correctional Health Care, the Florida Agency for Health Care Administration Licensure, and best practices developed in other state correctional systems. The FDC oversees delivery of a comprehensive set of medical, mental health, and dental services for state prison system inmates. The FY 2019-20 budget for health care services totals \$566.9 million.

The FDC has previously used a hybrid approach in managing inmate health care. During the time in which state employees were used to deliver facility health care services, the Department still maintained an extensive network of contracts with practitioners, hospitals, and vendors to provide off-site health care services in the community.

The Department of Corrections has attempted outsourcing with mixed results over the years. While privatization provided costs savings in the short-term, vendors were unable to provide consistent service that met contract performance standards at the funding levels they had bid. This led to a turbulent period of vendor terminations, transitions, and multiple attempts to attract additional vendors. Service quality issues at the time produced high levels of staff vacancies, decreased access to off-site care, increased inmate grievances, and costly litigation. In its most recent procurement, the

FDC received one responsive proposal for medical services after issuing multiple Invitations to Negotiate.

The current contract for inmate health services follows a cost-plus model. Under the Department's contract with Centurion, the vendor is reimbursed for the actual costs of care provided and paid an additional fee in the amount of 11.5 percent of program costs that cover administration and profit. The annual contract is capped at \$421 million for the three years from FY 2019-20 through FY 2021-22. Pharmacy services are not part of the contract but are instead managed directly by the Department.

Florida's spending on inmate health care is low relative to national averages but is comparable to per diem spending levels in six of the ten largest correctional systems. Per inmate spending levels in Florida are close to those of Texas, Illinois, Georgia, and Pennsylvania.

After declining in the period Fiscal Year 2010-11 through Fiscal Year 2014-15, inmate health care costs increased by 36 percent over the past four years, an annual average increase of 9 percent. The increases appear attributable to misalignment between contract funding and service requirements in the initial outsourcing initiatives. Recent litigation on mental health services, Hepatitis C treatment, and hernia repair accounts for nearly \$39 million in increased funding in the Fiscal Year 2019-20 budget. The ongoing increase in the geriatric population also continues to increase demand for medical services. The projected annual cost of providing health care for an inmate in a state-managed facility is \$6,511 for FY 2019-20.

Correctional systems with insourced delivery systems provide on-site care in prison with state employees in 18 states, including three of the five largest state correctional systems. However, these systems still contract for hospitalization, outpatient, and specialty services provided outside prison.

Outsourcing provides managed health care through contracted providers in 20 state correctional systems. The two primary forms of outsourcing are 1) capitated models in which the vendor assumes primary financial risk for required service delivery and is paid a per diem fee per inmate to cover all program costs; and 2) cost-plus models in which the state reimburses the vendor for program costs and assumes financial risk for required service delivery.

Hybrid models which combine different aspects of both insourcing and outsourcing to meet system needs are used in eight states. Basic hybrid models privatize the management of health care in select facilities while maintaining state management of health care in other system facilities.

University-managed systems rely on a state medical school or health sciences university to manage all or some significant component of correctional health care services. Four correctional systems use the university model, including the Texas prison system, the largest correctional system in the United States.

Insourcing inmate health care services in Florida is feasible and would produce savings from the current system. The FDC has the internal expertise and management infrastructure to adopt an

insourced model for inmate health care. However, recruitment and retention of health care staff would be a significant challenge requiring substantial advance planning. The Department would also require an improved approach in the management of off-site care. This could be accommodated by contracting with an insurance company or health care organization to manage all off-site care, utilization review, and claims management. Implementation of an insourced system could reduce FDC health care spending by an estimated \$46 million, primarily through elimination of vendor profit and administration costs.

The current cost-plus approach used by the FDC appears to be the most realistic means available to outsource on a system-wide scale. The cost-plus model is currently used by the FDC because the only vendor in the last procurement cycle willing to work with the Department made it a condition of the contract. By most reports, the current vendor is performing reasonably well under the current cost-plus contract. However, this approach to privatization does not encourage efficiency and appears to be the most expensive service delivery model, as the FDC must pay a significant fee to the vendor to cover overhead and profit, in addition to paying all direct costs. However, the contract is capped at \$421 million for the next three years and will provide the FDC with an electronic medical record system, which is a significant benefit.

A capitated approach to outsourcing could produce savings by incentivizing vendors to achieve efficiencies, particularly in the management of off-site care. However, this approach to outsourcing works best in a competitive procurement with multiple viable bidders competing on price and service quality. There are very few vendors who can provide services on the scale required in Florida with a record of acceptable service delivery. Moreover, the high degree of financial risk makes attracting enough bidders to facilitate a competitive environment difficult. Assuming vendors willing to work in Florida on a capitated basis, estimated annual savings of \$5.5 million, largely in the management of off-site care, may be possible.

A hybrid insourcing/outsourcing approach would require outsourcing services on a capitated basis for a region or group of select facilities, while insourcing the rest of the system. This approach increases administrative complexity and creates potential issues of equity in apportioning risk and inmates in need of health care among multiple vendors and state facilities. It also assumes that credible vendors are willing to bid on capitated contract services for smaller groups of contracts. If viable, the limited experience with this approach in one of the few states that use this model suggests savings could be achieved roughly equivalent to the level achieved with insourcing.

The university model of health care management has attractive features but requires active cooperation from a medical school. Elimination of profit, reduced administrative costs, and discounted pharmaceutical prices could produce potential annual savings of over \$40 million. However, no Florida medical school has indicated any interest in partnering with the FDC to manage inmate health care. One potential approach to building interest in such a model could be partnering with a university to take on one aspect of the correctional health care program, such as management of off-site care for a region or group of facilities.