ALASKA STATE LEGISLATURE
HOUSE HEALTH AND SOCIAL SERVICES STANDING COMMITTEE
February 7, 2017
3:02 p.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Sam Kito
Representative David Eastman
Representative Jennifer Johnston
Representative Colleen Sullivan-Leonard

MEMBERS ABSENT

Representative Bryce Edgmon, Vice Chair
Representative Geran Tarr
Representative Matt Claman (alternate)
Representative Dan Saddler (alternate)

COMMITTEE CALENDAR

PRESENTATION: STUDY OVERVIEW FOR PRIVATIZATION OF ALASKA PSYCHIATRIC INSTITUTE

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

COY JONES, Consultant
Project Leader
Public Consulting Group (PCG)
Austin, Texas
POSITION STATEMENT: Presented the PCG findings and recommendations for privatization of API.

ACTION NARRATIVE

3:02:47 PM

CHAIR IVY SPOHNHOLZ called the House Health and Social Services Standing Committee meeting to order at 3:02 p.m.

Representatives Spohnholz, Sullivan-Leonard, Johnston, Eastman, and Kito were present at the call to order.

Presentation: Study Overview for Privatization of Alaska Psychiatric Institute

3:03:19 PM

CHAIR SPOHNHOLZ announced that the only order of business would be a presentation by the Public Consulting Group regarding the privatization of Alaska Psychiatric Institute.

3:04:32 PM

COY JONES, Consultant, Project Leader, Public Consulting Group (PCG), presented a PowerPoint titled "Feasibility Study for the Privatization of Alaska Psychiatric Institute." He relayed that, although the report "drills down [to] pretty deep levels," the presentation would be a very high level overview for the findings and recommendations. He directed attention to slide 4, "Stakeholder Feedback," and listed the areas and the groups PCG spoke with, which included stakeholders in both government and the private sector, as well as former patients and employees at Alaska Psychiatric Institute (API). He relayed that PCG spoke with behavioral health providers in both the communities and the hospitals, who worked closely with API. He added that they had spoken with two of the three labor unions, as well as the trade associations in Alaska. He explained that there were also extensive studies and literature reviews detailing lessons learned and best practices with privatization efforts in other states during the past ten years. He moved on to slide 5, "Privatization Options," and highlighted the following options, pointing out that the State of Alaska would retain ownership of the property and the facility: (1) full privatization for all the operational aspects with either a lease or as property manager; (2) a joint operating agreement between the state and private partners, possibly as a hybrid public corporation; (3) continued state management with new efficiencies and improved processes as an alternative to privatization; and, (4) component outsourcing which would privatize pieces of the operations. He stated that although options 1 and 2 were not that different, there was a different legal status. He reported that Option 3 was not a real privatization, while option 4 privatized pieces of API. Discussing Option 4, he listed various outsourcing options, which included: the communication center, which include reception and security functions; the facility and materials management; the physician services, including

psychiatrists and the medical services; and, the nursing staff and their support staff. He declared that the final option would be a comprehensive outsourcing of everything except the basic administration and management. He moved on to slide 6, "Financial Assumptions," which addressed the various financial and service delivery assumptions for the cost - benefit analysis of the privatization models. He addressed the capital costs, which assumed that these would remain the same under any privatization option. He shared the assumption that the for-profit groups would have an expectation of an 8 percent profit margin, which had been determined from various Requests for Proposals from for-profit entities to similar operations; whereas, non-profit groups would have an expectation of a 4 percent profit margin. He spoke about the salary and benefit benchmarks, reporting that "common knowledge is that there's savings to be gained from privatization, it's usually because the compensation looks significantly different under a private entity than it does a public entity." He shared that although employee salaries would increase with privatization about by 13.7 percent, the benefits would decrease from the current value of 36 percent of total compensation to about 22 percent under a private employer. He added that the legal expenses for a private employer would be about 0.369 percent of the total contract. He estimated some reduction in overtime with privatization, comparing the current 1950 annual work hours by a full time state employee with 2080 annual work hours by a private full time employee.

3:17:40 PM

MR. JONES addressed slide 7, "Financial Assumptions," and explained that there would also be some specific transition cost assumptions, which included a necessary IT upgrade of the API electronic medical records system as it was almost out of compliance. He estimated that this IT upgrade would cost the state about $2.1 million, whereas a private entity should already have a system which would not require an upgrade. He reported that there would be some additional liability to the retirement fund with privatization and, using similar analysis with other state hospitals, the projection was for a cost of $2 million in termination liability. He added that there would also be some contract monitoring costs to ensure the proper delivery by a private entity. He allowed that this amount could be difficult to quantify, although it was estimated to be about 14 - 20 percent, and was also listed as an additional cost for privatization. He discussed the revenue assumptions, noting that the sources for revenue to API included private insurance

and Medicaid claims, with the projected five-year total revenue being the same under private or public entity.

3:20:54 PM

MR. JONES pointed to slide 8, "Service Delivery Assumptions," and posed the questions for the number of staff necessary to maintain decent service delivery and whether API was currently understaffed or overstaffed. He listed stakeholder comments and recent clinical reviews from outside consultants as sources of information to determine answers to the aforementioned questions. He stated that there were also industry best practice guidelines for staff ratios. He reported that the consulting group had reviewed comparable hospitals in other states, and, although API did not have any true peer, there were some similarities.

CHAIR SPOHNHOLZ pointed out that another meeting was scheduled to begin shortly and asked that any remaining slides be discussed at the next House Health and Social Services Standing Committee meeting.

3:23:46 PM

MR. JONES directed attention to slide 9, "Staffing Requirements," and discussed the various staffing ratios. He directed attention to the API baseline for staffing, which more closely reflected a small peer group hospital than a large peer group hospital, although API had a higher staff to patient ratio in almost all the categories. He suggested that API might potentially be over staffed in some areas, and that cuts were plausible. He directed attention to the recommended privatized staffing which projected reductions to API, and pointed out that this more closely mirrored a small peer group hospital.

3:26:15 PM

MR. JONES moved on to slide 10, "Staffing Requirements," which presented suggested reductions. Public Consulting Group (PCG) suggested reductions under a private entity of administrative costs in IT, as a corporate enterprise would absorb many of these costs, as well as a reduction of full time administrative staffing to the ratio of other small hospitals or lower. PCG suggested that API operate with nursing staff levels comparable to small peer hospitals, although acknowledging that different parts of API required different staffing levels dependent on the severity of the patient diagnosis. He reported that it was

possible to review the yearly API data for "close observation status", and then determine the necessary extra nursing staff. He suggested that, at any given time, it was necessary to have 18.1 nursing staff on the floor, although the PCG recommendation was for 21.2 nursing staff to be on the floor at all times. He pointed out that this model had been tasked to predict what a contractor would do, not necessarily what a contractor should do. He added that the staffing recommended by PCG was considered safe, although not necessarily considered optimal, as a private provider may only ensure safe staffing, but not necessarily optimize staffing.

3:28:44 PM

REPRESENTATIVE JOHNSTON asked about the managed competition model.

MR. JONES replied that he was not familiar with this model.

REPRESENTATIVE JOHNSTON reflected that the PCG scenario for efficiencies could be augmented by a managed competition bid for certain services. She allowed that this bid process would often allow the current service to become more efficient as it prepared a bid.

3:29:53 PM

REPRESENTATIVE SULLIVAN-LEONARD asked if there was a dollar savings to the state for privatization of API.

MR. JONES replied that there was a detailed cost - benefit analyses for each of the option models, although it was not presented in the PowerPoint.

CHAIR SPOHNHOLZ relayed that the full report had been sent out to all the members of the committee.

CHAIR SPOHNHOLZ asked for more detail to the difference between large peer groups and small peer groups.

MR. JONES, in response, explained that many hospitals had about 200 beds, while some had 800 beds. He pointed out that these larger hospitals allowed a much smaller administrative staff ratio to beds. He noted that, as the IT system cost the same regardless of the number of beds, it was a more significant cost to a smaller hospital. He added that there were economies of scale with direct care, as well. He reported that a small

hospital had a higher administrative overhead, and would often focus on a very specialized service or acute emergency services. He stated that a large hospital would have a range of services for the care of many patients, many of which were not nearly as intensive or acute as API. This was reflected in the staffing ratios, hence the separation of small hospitals and large hospitals in the presentation.

3:33:18 PM

ADJOURNMENT

There being no further business before the committee, the House Health and Social Services Standing Committee meeting was adjourned at 3:33 p.m.