

**ALASKA STATE LEGISLATURE**  
**HOUSE HEALTH AND SOCIAL SERVICES STANDING COMMITTEE**

February 16, 2017

3:04 p.m.

**MEMBERS PRESENT**

Representative Ivy Spohnholz, Chair  
Representative Sam Kito  
Representative Geran Tarr  
Representative Jennifer Johnston

**MEMBERS ABSENT**

Representative Bryce Edgmon, Vice Chair  
Representative David Eastman  
Representative Colleen Sullivan-Leonard  
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.

RANDALL BURNS, Director  
Central Office  
Division of Behavioral Health  
Department of Health and Social Services  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions during the discussion  
for privatization of Alaska Psychiatric Institute.

## **ACTION NARRATIVE**

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**CHAIR IVY SPOHNHOLZ** called the House Health and Social Services Standing Committee meeting to order at 3:04 p.m. Representatives Spohnholz, Kito, Tarr, and Johnston were present at the call to order.

### **Presentation: Study Overview for Privatization of Alaska Psychiatric Institute**

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CHAIR SPOHNHOLZ announced that the only order of business would be the conclusion of the presentation by the Public Consulting Group regarding the privatization of Alaska Psychiatric Institute to the House Health and Social Services Standing Committee meeting of February 7.

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COY JONES, Consultant, Project Leader, Public Consulting Group (PCG), returned attention to the PowerPoint titled "Feasibility Study for Privatization of Alaska Psychiatric Institute" and directed attention to slide 10, "Staffing Requirements." He spoke about the reduction of full time employees at the administrative level, and reported that PCG assumed there would be built-in efficiencies for a private entity, as a larger enterprise could better absorb quality assurance, IT, and other functions. He reported that the minimum levels for nursing staff had been determined by staff levels at comparable small peer hospitals, as well as industry recommendations. He reported that the benchmark in the industry was a ratio of 1 registered nurse (RN) for 6 patients, and that this was close to the API ratio. He pointed out that the PCG recommended cuts were not to RNs but to psychiatric nursing aides. He discussed the minimum staffing requirements for the hospital, sharing that API required 18.1 nursing staff at any time in the hospital, and that PCG recommended 21.2 nursing staff at any given time.

MR. JONES moved on to slide 12, "Benefits and Drawbacks: Full Privatization," and recounted the options to include full privatization, joint operating agreement between the state and the private entity, current state management with new

efficiencies, and component outsourcing. He discussed Option 1, Full Privatization, and shared a high level cost-benefit analysis. The benefits for full privatization included: a private contractor would provide more flexible compensation to improve recruitment and retention of qualified employees; the Division of Behavioral Health would act as a contract administrator and no longer provide acute inpatient care and day to day management duties; and, a private contractor would have the autonomy to implement necessary changes, improvements, and efficiencies at API.

MR. JONES detailed the drawbacks to full privatization to include: it would be cost prohibitive, even under the recommended staffing scenario, and would not save money for the State of Alaska; there would be termination liability costs to the retirement fund; it would be necessary to minimize some of the contract monitoring costs, or not build in the strong safeguards to ensure safe levels of staffing; and, it would be necessary to cut corners that were not safe to cut.

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MR. JONES directed attention to slide 13, which depicted a thumbs down for Option 1, declaring that this option would not produce the necessary savings.

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MR. JONES addressed slide 14, "Benefits and Drawbacks: State Management," and discussed "Option 3: State Management with New Efficiencies." He stated that most of the efficiencies were not dependent on a private operator. He spoke about the benefits, which included: an opportunity for the state to maintain full control and accountability of this service; no additional costs related to contract administration; the greatest amount of value and cost savings to the state if the service delivery recommendations were implemented; and minimal termination liability costs.

MR. JONES shared that the drawbacks included: higher staffing expenditures with public employees; more administrative burden with implementing the recommended changes; and a question for successful improvements under the public entity.

MR. JONES shared slide 15 which depicted a thumbs up for Option 3 as the most recommended.

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MR. JONES reported on slide 16, "Benefits and Drawbacks: Center Outsourcing," and stated that four options had been identified, which included: privatize security and reception, the communication centers; and, privatize the maintenance and environmental services. He reported that there was potential for significant savings to both of these cost centers, and that there were not any strong drawbacks to either of these.

MR. JONES presented slide 20, "Benefits and Drawbacks: Psychiatry and Medical Services Outsourcing," which described the option to privatize the physician component of the hospital. He declared that this option was not feasible, as it would not reduce costs, slide 21. He suggested that costs could even increase, as salaries and benefits could increase in an effort to improve retention.

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MR. JONES shared slide 22, "Benefits and Drawbacks: Nursing Staff Outsourcing." He stated that PCG did not recommend yes or no, as this could only be feasible under a non-profit operator, and it was not clear who the vendor for nursing staffing would be in Alaska. He stated that PCG recommended strong caution, slide 23.

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MR. JONES directed attention to slide 24, "Benefits and Drawbacks: Comprehensive Outsourcing," which discussed the option for privatizing all the direct services, and leaving the state as the administrator of the hospital. He reported that this was found not to be feasible, mainly due to the increased cost of the physician staff. There would not be any cost savings to the state, slide 25. He said that this concluded PCGs findings and recommendations.

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REPRESENTATIVE JOHNSTON asked if API was currently fully staffed for medical providers.

MR. JONES offered his belief that it was fully staffed. He reported that in recent years there had been a heavy reliance on locum tenens for substitute positions, and that API was only one or two positions away from going back to locum tenens.

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RANDALL BURNS, Director, Central Office, Division of Behavioral Health, Department of Health and Social Services, expressed his agreement that it was a fragile system and that, as one psychiatrist had just given notice, API was "now down a psychiatrist."

REPRESENTATIVE JOHNSTON asked if API moved back and forth from being fully staffed to the use of "more transient providers."

MR. BURNS replied that this was correct. In response to Representative Johnston, he expressed agreement that the staffing was "a hybrid."

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REPRESENTATIVE JOHNSTON asked about termination costs and studies.

MR. JONES replied that this cost estimate was a rough approximation, and it came from the Department of Administration. He acknowledged that, as PCG had not done a termination study, the closest way to approximate was to look at past cases and similar studies. He reported that PCG had used a public hospital of similar size, and its termination liability had been \$2 million. They used this assumption although costs might have increased, as the benefit package was now significantly different.

REPRESENTATIVE JOHNSTON asked if, as termination costs were an issue, it should be dropped.

MR. JONES replied that PCG had wanted to represent the scale for the likelihood of the liability "without trying to make it look more concrete than it is."

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REPRESENTATIVE TARR asked how to deal with sensitive health information when an outsourced call center was used.

MR. JONES replied that PCG was really describing the front desk at API, which included the reception and security functions. He shared that these functions were often privatized, although within API, these were employees of the hospital. He reported

that these functions could be done significantly cheaper than the current costs.

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MR. BURNS added that API had other contracts, including for transportation of patients, and that confidentiality was managed as long as there were business agreements under the Health Insurance Portability and Accountability Act.

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CHAIR SPOHNHOLZ asked about the amount determined to be significant savings under private management of the communications center.

MR. JONES replied that this was significant relative to the total cost of the communication center, a savings of about \$233,000 annually, or a 62 percent savings to the current cost. He acknowledged that this was a small part of the total hospital costs.

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#### **ADJOURNMENT**

There being no further business before the committee, the House Health and Social Services Standing Committee meeting was adjourned at 3:31 p.m.