SB

96

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 96
(S) Publish Date: 2/16/01

Revision Date/Time (Note if correction):
Title: Alaska Psychiatric Institute
Sponsor: Rules Committee
Requester: Governor

Dept. Affected: Revenue
BRU: Revenue Operations
Component: Treasury Division
Component Number: 121

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel	10.0					
Contractual	8.0	7.0	7.0	7.0	7.0	7.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Debt Service		3,663.5	3,663.4	3,667.5	3,666.3	3,664.5
TOTAL OPERATING	18.0	3,670.5	3,670.4	3,674.5	3,673.3	3,671.5
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1002 Federal Receipts						
1003 GF Match						
1004 GF	18.0	3,670.5	3,670.4	3,674.5	3,673.3	3,671.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	18.0	3,670.5	3,670.4	3,674.5	3,673.3	3,671.5

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal: [ ]

POSITIONS

POSITIONS						
Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This legislation authorizes the State Bond Committee to issue $36.55 million in state Certificates of Participation for the construction of a new facility for the Alaska Psychiatric Institute. The project will also use existing appropriations of $19.2 million and $3 million from the Alaska Mental Health Trust. Total project size is $58,750,000.

Assuming a 15-year term, and a true interest cost of 5.6% (about 1% above Feb. 14, 2001 rates), annual debt service is approximately $3.7 million beginning in fiscal year 2003 with total repayment estimated at just under $55 million. This inflated interest cost estimate is necessary due to the volatility in interest rates and the difficulty in accurately forecasting what market rates will be in the future.

Prepared by: Devon Mitchell
Division: Treasury Division
Phone: 465-3750
Date/Time: 2/13/01 12:00 AM

Approved by: Larry Persily, Deputy Commissioner
Agency: Department of Revenue
Date: Feb.14, 2001

For distribution information, call the Governor's Legislative Office

(Rev 2/7/2001 OMB)

ALASKA STATE LEGISLATURE

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SENATE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

SENATOR LYDA GREEN, CHAIR

To: Senate HESS Members

From: Aurora Hauke, Committee Aide

Date: March 16, 2001

Subject: SB 96 C.O.P.S FOR API DEMOLITION/CONSTRUCTION

Please find attached the Department of Health & Social Service's answers to questions raised in the Senate HESS Committee on February 28, 2001 regarding SB 96 C.O.P.S FOR API DEMOLITION/CONSTRUCTION.

SENATOR LOREN LEMAN, VICE-CHAIR
SENATOR JERRY WARD, SENATOR GARY WILKEN, SENATOR BETTYE DAVIS

STATE OF ALASKA

DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

P.O. BOX 110601
JUNEAU, ALASKA 99811-0601
PHONE: (907) 465-3030
FAX: (907) 465-3068

March 15, 2001

The Honorable Lyda Green
Alaska State Legislature
State Capitol, Room 125
Juneau, Alaska 99801

Dear Senator Green:

I am writing to respond to issues and questions raised by Committee members regarding the Alaska Psychiatric Institute (API) replacement project during the February 28 Senate HESS Committee hearing on SB 96. Members raised four key questions and several related issues. Those questions are re-stated below, followed by information responding to the questions.

Did DHSS explore the purchase of any other building in Anchorage besides the Charter North Hospital?

In January 1998 the Department of Health and Social Services (DHSS) gave very public notice of its desire to purchase a facility within the Municipality of Anchorage to serve as a replacement for API. The Department issued letters to all known owners of potentially qualifying facilities and published a Request for Letters of Interest (copy attached) in the Anchorage Daily News. These efforts sought a response from any private entity with title to a facility qualified to serve as a replacement for API. Qualifying facilities were limited to those that met hospital level code, licensing, and accreditation standards because converting a facility to meet those standards would not be economically feasible.

Despite the broad public notice, DHSS received only one response – that was from Charter Behavioral Health Systems. We pursued purchase of Charter North Hospital because it met two out of our three most important criteria: 1) it was located near (right across the street from) a general (medical-surgical) hospital, and 2) purchase of the facility, expansion, renovation, and land acquisition could be substantially, although not fully, accomplished with the funds remaining in the API Replacement appropriation. The Charter facility was acceptable though far from ideal in meeting the third criteria - a therapeutic environment with appropriate types of treatment space.

As you know, strong community opposition and local planning and zoning decisions prevented DHSS from purchasing the Charter facility. In the wake of that experience we do not believe it would be possible to purchase a facility in Anchorage that could serve as a replacement for API. We believe this for several reasons:

printed on recycled paper

- No existing facility in Anchorage that could qualify as a replacement is available for purchase, as clearly indicated by response to our previous solicitation.

- We do not believe it would be possible to convert a facility built to non-hospital standards to serve the unique needs of an inpatient psychiatric hospital. Hospitals require special construction standards and API, because it is a locked facility, is held to a very high level of fire life safety construction and operational standards. Equal in importance is the need for a therapeutic environment. The Department could not simply purchase an office building, for example, and then attempt to renovate it to hospital standards and functionality at a reasonable cost.

- API must be located very near a general, medical-surgical hospital. A significant number of our patients must be medically screened prior to admission. The difficult mental states of many of our patients are often further complicated by their poor health, including: substance abuse effects, and many serious, chronic diseases such as diabetes, high blood pressure, seizure disorders, liver dysfunction, ulcerated stomachs, and other conditions. These conditions make immediate access to emergency hospital care essential. No suitable facility with an appropriate location is available for purchase as a replacement for API.

- Our experience in attempting to purchase Charter as a replacement for API clearly demonstrated that any attempt to relocate API in another neighborhood would be met with strong community opposition and would likely experience the same adverse zoning decisions preventing use of any replacement facility. This was confirmed by the resolution of the Anchorage Planning and Zoning Commission (copy attached), who voted in unanimous objection to the relocation. Local government decision-makers and the community in general were quite clear: stay put.

In summary, we believe it is virtually impossible for DHSS to purchase and use other buildings in Anchorage as a replacement for API. The unique construction and programmatic needs, the need to be very near a general hospital, the limited number of suitable facilities and their lack of availability for purchase, and the community's opposition to API's relocation make this impossibility clear.

Why were Certificates of Participation (COPs) chosen as the mechanism to fund the API replacement hospital?

COPs were chosen over General Obligation Bonds (GOBs) and AHFC capital project and governmental purpose bonds for several reasons.

- COPs are a very common method of financing for states when purchasing or constructing a building and are a good fit for this individual project. COPs have strong market acceptance and flexibility and a record of success with similar projects in Alaska and elsewhere.

- General Obligations Bonds (GOBs) have not historically been used for individual projects but rather for groups of projects, and no GOBs have been issued in Alaska for many years. GOBs must be authorized by law and ratified by the voters. This project is specific enough in nature

that it doesn't warrant taking the public process beyond the Legislature and Governor, and to do so would be a break from historical practice. Additionally, as there is no statewide election until 2002, waiting for general election approval would further delay the project by approximately two years, reducing the buying power of the existing appropriation and likely increasing the cost of the project.

- Financing through AHFC does not appear feasible. AHFC does not have current capacity to issue additional capital project or governmental purpose bonds. AHFC has issued $603 million in governmental purpose and $196.35 million in State capital project bonds since 1994. These bond issuances have funded capital projects throughout the State, and are paid for with revenues from AHFC as part of a multi-year agreement with the Legislature. As part of this agreement, AHFC provides the State $102 Million, of which $50 Million is available for payment of these classes of bonds. AHFC staff have indicated that the $50 million portion of their dividend available to repay bonds is fully utilized for as long as rating agencies will allow. AHFC staff have indicated that if additional demands are placed on the Corporation, its credit ratings would likely be adversely affected.

Did the Department consider a design/build approach to the new facility, and whether to privatize the operations of the hospital?

Design/Build

The design/build approach was considered during the initial phase of work on this project. It was not selected because the hospital replacement project is complex and involves exceptional requirements for which the design/build approach is not well-suited. A design/build approach is generally understood to work well with straight-forward projects like simple office building structures. It does not offer advantages when applied to more specialized projects that have unique programmatic and design needs requiring much more complex programming, design, and construction. In fact, it has substantial drawbacks for such applications. The public input aspect of high profile public projects such as API, involving many key stakeholders and politicized as API has been, is not well-tolerated or accommodated by the design/build approach.

The State's success with this approach has been, at best, mixed. There are examples of projects with good outcomes (the Fairbanks Trooper Office) and bad outcomes (the University of Alaska Southeast's housing project, the DEC building/lab in Juneau). All of these projects were relatively straight-forward compared to the complexity of hospital construction.

Given the uniqueness of this project DOT&PF determined early on that maintaining maximum control of this project was important. Failure to have full control of such a complex project could delay the project if problems developed during the design or construction phases, or increase operating or remediation costs down the line because of flaws in design or construction.

The complexity of the project and need to maintain maximum control was borne out in the bids received in 1996. One of the contractors who bid on the hospital project indicated that a main reason that his and the other bids were so far above the DOT estimate was the lack of contractor familiarity with some of the construction requirements of this special project. In other words, they

marked up their construction bids to account for possible contingencies in this type of unusual hospital construction, to ensure that they were not left holding the bag if they encountered difficulties during the construction phase.

DHSS and DOT&PF have recently again discussed the potential of a design/build approach. DOT&PF believes that a modified design/build approach could be considered at this time using the existing design but requiring optimization through a "value engineering" effort to minimize construction costs. (Please see the attached memorandum from DOT&PF employee Jerry Watkins.)

Should the State Attempt to Privatize Operations of the API?

The majority of Alaska's mental health system has been privatized. Since the early 1980's, when API's census was close to 225, the Department has actively privatized mental health services in Alaska through community mental health providers and local hospitals. Today API is only a 74 bed hospital, and community hospitals that are interested or able have assumed responsibility for local, acute psychiatric treatment through "Designated Evaluation and Treatment" (DET) or "Designated Evaluation and Crisis Stabilization" (DES) agreements with the Division of Mental Health and Developmental Disabilities (DMHDD) – providing evaluations and short-term treatment for up to 30 days.

Instead of relying on API, community hospitals in Juneau, Kodiak, Nome, and Fairbanks are presently well-reimbursed by the State for the inpatient psychiatric services these hospitals provide. In addition, many of the patients formerly treated at API, and present clients of community mental health centers (CMHCs) with similarly difficult illnesses, no longer need hospital-level care because of vast improvements in the medications available AND the significant efforts to increase local, community-based services.

We have already considered, pursued and successfully privatized those aspects of API's functioning that can be accomplished by private providers in those areas where providers are willing and able to take on those functions. We are pursuing additional privatization efforts in Anchorage where we are attempting development of DET beds, a single point of entry and other community alternatives to hospitalization at API.

The development of private community alternatives in Alaska certainly parallels what is occurring nationally. Nevertheless, *no state* has entirely eliminated public hospital capacity to serve the inpatient psychiatric needs of its residents. While the trend toward reduced use of inpatient hospitals is desirable it remains necessary for states to maintain state-operated psychiatric treatment beds as the last resort when private hospitals and community services are incapable or unwilling to meet the need.

This core function of government is a cornerstone of every state's mental health system. State hospitals provide acute and tertiary inpatient psychiatric care and treatment to patient populations that exceed community capacity. State hospitals must be available when private providers are unable or unwilling to provide the type of care needed. Such instances include care for individuals involuntarily hospitalized because of serious and chronic mental illness accompanied by complex

medical needs or very difficult or assaultive behavior, traumatic brain disorders, geriatric mental illnesses, pre-trial forensic evaluation and treatment, or because of their legal status as not guilty by reason of insanity (NGRI). As a group, the severity of these illnesses creates and presents treatment challenges that are expensive in terms of the intensity of service need and present potentially difficult and costly risk management issues, thus reducing private provider willingness to provide these services to these unique individuals.

Though most services can and have been privatized it would be imprudent to eliminate *all* state operated hospital capacity. If *all* state-operated inpatient capacity were eliminated the state could not assure needed care for the most vulnerable mentally ill patients in the face of a bankruptcy (such as Charter corporation experienced recently), a contract default or other event that left the state without inpatient capacity. We simply cannot eliminate the last resort in favor of a privately operated capacity. Therefore, while DHSS is opposed to the idea of entirely privatizing or eliminating API, it certainly continues its support for and commitment to the continued expansion of community-based mental health services, whether outpatient or inpatient, where ever possible

Is the single-story design appropriate for API?

The single-story design of the replacement hospital was the subject of considerable research, planning, and public input. It was determined to be both the most appropriate and clinically advantageous design, given the unique purpose of the facility and the needs of those persons suffering from mental disorders.

There are some potential cost savings possible with multistory construction, however, those do not actually accrue until a building is four stories or more. Re-designing the replacement facility would **add** substantially to the costs of replacing API and, given the size of the facility, there is no assurance that the additional redesign costs would be offset by reduced construction costs.

The single story design we have has several advantages:

- It has the maximum potential to accomplish the fundamental purpose of the hospital – patient recovery. It was designed to meet the unique and subtle needs of persons experiencing mental illness who are hospitalized for treatment

- It provides for efficient, low cost operation by locating staff on the patient units and by accommodating ease of maintenance and repair through ready access to support systems without disrupting patient care.

- Because the hospital is single story design all the costs of providing for patient safety and security are reduced enormously. The costs of purchasing, maintaining, and supervising elevators and stairs, and the concomitant costs and complications accruing from multilevel fire safety for a health/hospital occupancy are clearly reduced significantly.

Comparing multi-story vs. single story designs reveal several facts. Multistory buildings save on foundation and roof costs but they also bear the additional cost of vertical circulation space (stairs and elevators) and increased structural frame costs. Additionally, multistory buildings

have less adaptability for changing treatment methodologies over the long term and may incur increases in staffing costs (depending on layout) due to that lessened adaptability. A multi-story facility also lacks flexibility and direct ground access for any physically disabled patients housed above the ground floor.

Multistory buildings are often the preferred design on smaller sites where space is at a premium. Single-story buildings are typically preferred where the site is less constrained and ready access to the grounds is desirable and/or reservation of land for future growth is required.

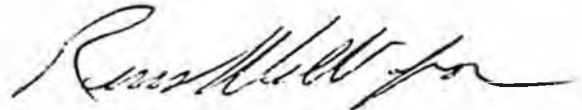
Comparing costs per square foot for single-story vs. two-story reveals a cost premium for two-story. The efficiencies of multistory really don't become notable until single-story is compared with multi-story construction exceeding four stories. An API replacement designed for the needed capacity would not reasonably be expected to achieve those cost efficiencies.

Given this project's programmatic requirements and the availability of adequate site area at the existing location, a single-story building is appropriate and probably most conducive to the purpose of the facility - patient recovery.

Finally, the design has already once received affirmation through the public review process, including final approval by the Anchorage Planning and Zoning Commission.

I hope this information responds fully to Committee members' questions and is helpful in considering SB 96.

Sincerely,



Karen Perdue
Commissioner

Attachments
cc: Janet Clarke, Director, Admin. Services
Randall Burns, Director, API
Walter Majoros, Director, DMHDD

STATE OF ALASKA

DEPARTMENT OF HEALTH & SOCIAL SERVICES

REQUEST FOR LETTERS OF INTEREST

The Alaska Department of Health and Social Services (DH&SS) is interested in determining whether there is presently any private entity with title to a facility within the boundaries of the Municipality of Anchorage that meets current hospital-level construction, fire, and security codes and all appropriate JCAHO and HFCA hospital accreditation standards that would be interested in entering into negotiations with the State of Alaska, the conclusion of which would be the conveyance at an agreed upon time of either the ownership of that privately held facility or the undivided interest ownership to a physically separate, programmatically independent portion of that existing facility to the State of Alaska for DH&SS' direct operation of a psychiatric hospital.

This is not an offer to purchase such a facility. DH&SS is presently considering a number of potential alternatives for the replacement of Alaska Psychiatric Institute's facilities and may or may not enter into future negotiations based on any letter of interest provided in response to this request.

The facility (or the separate portion thereof) sought through this Request for Informant must 1) at a minimum, be able to provide a bed capacity that may range from 54 to 72 beds; 2) be accessible to major transportation hubs and near emergency medical facilities; and 3) be located on grounds that provide for appropriate private, patient outdoor access and activity.

DH&SS would operate a locked, secure, public, psychiatric hospital within this facility, and would treat a variety of patient populations, including acute and longer term adults, age 18 and above (including provision for the needs of the elderly), who are committed involuntarily for psychiatric treatment; a medium security forensic population (including persons accused of crimes and undergoing evaluation for competency or treatment for incompetency), as well as persons found not guilty by reason of insanity.

The facility is required no later than July 1, 2000 (but title may be conveyed earlier), in order that any necessary additional construction or necessary renovations and repairs could be completed prior to an anticipated state occupancy of October 1, 2001.

If you are interested in providing a facility to the State of Alaska, please provide a description of your facility or any other options you believe to be viable for DH&SS given their goal to obtain such a facility for the direct operation by DH&SS of a psychiatric hospital, along with a letter of interest, to the address below by 4:30 p.m. on February 11, 1998.

Thank you for your consideration of this request for information.

Darla Madden
DH&SS Procurement Officer

Mail the Letter of Interest to:

Darla Madden
DH&SS Chief Procurement Officer Phone: 907-465-3005
P. O. Box 110650 Fax: 907-463-3153
Juneau, AK 99811-0650

Posted: January 26, 1998

NOTICE OF PROPOSED ACTION BY ALASKA PSYCHIATRIC INSTITUTE
(DEPARTMENT OF HEALTH AND SOCIAL SERVICES)

The public is hereby notified, that the Alaska State Department of Health and Social Services (the Department) is considering action regarding construction of facilities to replace the existing API facilities in Anchorage, Alaska. The Department is considering various options including

1. Construction of a hospital on the same parcel of property that its existing hospital is located (south of Providence Drive) pursuant to architectural/engineering drawings developed for API, and pursuant to future bid specifications which may be let under applicable procurement code provisions;

2. Movement from API's present facilities to a location including part of and/or next to facilities presently owned and operated by Charter North Star Behavioral Health System (south of Debarr Avenue); an option considered by API following a response from Charter North Star Behavioral Health System to the Department's request for letters of interest published January 28, 1998;

3. Construction of facilities on land currently owned by the University of Alaska adjacent to Providence Hospital property or alternatively on Alaska Mental Health Trust land in a location to the south and west of API's present location. The facility so constructed may be leased in part to a local public procurement unit, including but not limited to Providence Hospital.

The authority for pursuing the foregoing options arises under (1) the Department's general authority to construct, operate, and acquire hospitals, including facilities for mental health care (AS 47.30), and (2) the Alaska procurement code, and exceptions provided by law to that code (AS 36.30). The Department will evaluate the most viable replacement proposal among these options for purposes of program execution consistent with appropriations which have been authorized or will be authorized by law. Assuming availability of funding, it is anticipated that acquisition and/or commencement of construction could begin during fiscal year 2000. It is also anticipated that acquisition or construction of appropriate facilities will be phased to promote security and minimize impact upon patients of API, and will result ultimately in demolition of part or all of the existing API facilities. Written comments regarding the foregoing process may be addressed to Darla Madden, Procurement Officer, Department of Health and Social Services, Division of Administrative Services, P.O. Box 110650, Juneau, Alaska 99811-0650.

DATED this 4th day of December, 1998.

DEPARTMENT OF HEALTH AND
SOCIAL SERVICES

By Darla Madden
Darla Madden
Procurement officer

AP064B2/8500.0100

API 2000
031 B

TONY KNOWLES, GOVERNOR

STATE OF ALASKA

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

CENTRAL REGION - DIVISION OF CONSTRUCTION & OPERATIONS
PUBLIC FACILITIES BRANCH

DOT&PF ANNEX BUILDING
2200 EAST 42nd. AVENUE
ANCHORAGE, ALASKA 99508
(907) 269-0810 or 269-0819
FAX (907) 269-0806 or 269-0805

November 2, 2000

RE: Alaska Psychiatric Institute
Replacement Facility
Project No. 51064

Design/Build Procurement

Mr. Larry Streuber
Chief, Facilities/Planning
Alaska Department of Health & Social Services
P.O. Box 110650
Juneau, Alaska 99811-0650

Dear Mr. Streuber;

This is to respond to your request for comment upon the relative merits of using the Design/Build method of procurement to replace the existing API.

The Public Facilities Branch has utilized iterations of the Design/Build procurement method on several projects over many years. The earliest I can remember, and by far the most programmatically complicated, was the procurement of a 100-Bed Prison near Sutton, Alaska, in 1981-82. This project utilized the truest form of Design/Build: the solicitation described the required spaces, gave the proximity relationships of the spaces, specified the required lighting levels and finishes in each room, etc, and the respondents furnished their qualifications and a schematic design submittal. The winning contractor was selected on the basis of a relative scoring matrix, which considered qualifications, desirability of the submitted design, and proposed price and schedule.

As a participant in that procurement, my assessment is that:

1. The State was unable to maintain the normal degree of control of the design process and the construction product. As a result, the long-term maintenance and operations costs have been higher than normal.
2. There was a real advantage in delivery time for the project by way of the Design/Build process. The facility was occupied within 11 months of the Using Agency's initial request, probably one year sooner than would have been possible with the more conventional process.

More recently, our Branch has executed several Design/Build procurements for relatively non-

complex facility types: sand storage buildings and aircraft rescue/fire fighting equipment buildings. These cases have utilized a more controlled process whereby we publish a conceptual/schematic design and solicit proposals to complete the design and build the project. Still, the qualifications of the design/build team are ranked in a scoring process and considered along with the proposed contract price. This has seemed to work well for these kinds of buildings. But I would not currently recommend even this more controlled iteration of the Design/Build procurement method for a new facility as programmatically complex as the State's only mental hospital.

However, I'll mention an iteration of Design/Build that may be worth considering for the API Replacement Hospital. Under this iteration we would:

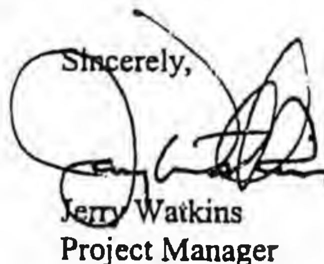
1. Issue a Design/Build solicitation based primarily on the already-completed design;
2. Allow respondents to confidentially propose "value engineering" design modifications (subject to State approval prior to submission of final offers);
3. Require the respondents' team members to assume the role of "Architcct/Engineer of Record" if awarded the contract;
4. Award the contract to the respondent submitting the best offer considering qualifications, desirability of modified design, proposed schedule, and price.

Unfortunately, the currently available funds are inadequate to support such a contract award, even considering potential "value engineering" proposals. Also, cleanup and demolition of the existing hospital is a high priority in addition to procuring a new facility. And, finally, the Alaska Mental Health Trust has a fiduciary responsibility to secure revenue from its lands, which include this site.

Considering those factors, I would suggest a further evolution of the Design/Build process described above: Design/Build/Lease-Purchase (including demolition of the existing facility and purchase of the site). This proposal would have the developer finance all costs, to be recovered through a long-term lease to the State. The existing project funding could be applied as an initial payment upon completion, to lower the total lease-purchase payments.

Admittedly, such an arrangement is at the fringes of my experience and qualifications. But with appropriate assistance from the Departments of Administration, Law, and Revenue, I believe this would be a workable procurement approach.

Sincerely,



Jerry Watkins
Project Manager

cc: Steve Flodin, Chief, Public Facilities Branch

ALASKA STATE LEGISLATURE

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SENATE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE
SENATOR LYDA GREEN, CHAIR

To: Senate HESS Members

From: Aurora Hauke, Committee Aide

Date: March 9, 2001

Subject: SB 96 C.O.P.S FOR API DEMOLITION/CONSTRUCTION

Please find attached additional information to be included in the bill packet for SB 96 C.O.P.S FOR API DEMOLITION/CONSTRUCTION which was heard on February 28, 2001.

SENATOR LOREN LEMAN, VICE-CHAIR
SENATOR JERRY WARD, SENATOR GARY WILKEN, SENATOR BETTYE DAVIS

RECEIVED

MAR 0 8 2001

ALASKA MENTAL HEALTH BOARD

TONY KNOWLES, GOVERNOR
STATE OF ALASKA

431 N. Franklin, Suite 200
Juneau, Alaska 99801
Office: (907) 465-3071
Fax: (907) 465-3079

March 7, 2001

Senator Lyda Green, Chair
Health Education and Social Services Committee
Alaska State Senate
State Capitol
Juneau, Alaska 99801-1182

Dear Senator Green:

The Alaska Mental Health Board (AMHB) would like to contribute to the discussion concerning SB 96, which proposes a plan to finance the construction of a replacement for the Alaska Psychiatric Institute (API). As we listened to the outline of the plan to replace API ably presented by API Director Randall Burns to the committee on February 28 and the questions posed by committee members, we felt that some key historical perspective should be part of the discussion.

The plan embodied in SB 96 would replace API with a 54-bed facility (expandable to 72 beds). Committee members, looking at API census data, questioned whether a hospital of that size would be sufficient to meet Alaska's need for tertiary psychiatric care. As Director Burns pointed out, a 54-bed state mental hospital providing principally tertiary care would suffice if complementary community services were in place to serve a large part of the patient load now carried by API. The 18-bed expansion capacity provides both a safety net and the ability to respond as the state's population increases.

What the committee should also know is the "story behind the story" on the 54-bed proposal. That number, along with many other elements of future API services and corresponding community services, was the product of a series of negotiating and planning processes involving all stakeholders in Alaska's public mental health system. These began in 1992 and continue today under the auspices of the Community Mental Health/API 2000 Project. The crucial thing to know is that these processes led to a hard-won consensus plan to replace the API facility and devolve many of the services historically provided by API to the community. The mental health community, consisting of consumers and families, advocates, state agencies, community providers, and other interested parties, devoted tremendous energy and resources to developing this consensus plan for a mental health system in which a 54-bed state hospital would be a core component.

The AMHB was a key player, among many key players, during these processes. While we certainly understand why committee members might question, based on current census information, the number of beds planned for the replacement facility, the AMHB believes (as do, we believe, the vast majority of the stakeholders that developed the consensus position on API) that the hospital as planned has the appropriate number of

beds. We further believe that any departure from this consensus should occur only as a result of a consensus decision. We believe that no such departure is necessary. What is necessary is the commitment and perseverance to develop the community service component (both in Anchorage and in other communities) to complement a smaller API.

It is time to replace API. It is also time to build the community infrastructure that will divert a large number of the Alaskans who now have no alternative to API. The fundamental idea is to put API in its place as an important, but smaller, element of the overall system of mental health service delivery. We hope that the committee will keep this history in mind as it considers SB 96. The AMHB would be happy to answer any questions the committee may have or provide additional materials that describe in detail its position on the future of API within the larger system. Thank you for your consideration.

Sincerely,

Pat Murphy
Chair

Cc: Walter Majoros, Director DMHDD
Jill Ramsey, NAMI-Alaska
Jan McGillivary, MHAA
Katsumi Kenaston, AKMHCWeb
Faye Nieto, Parents, Inc.

SB 96 C.O.P.S FOR API DEMOLITION/CONSTRUCTION

SECTIONAL ANALYSIS

Prepared by Aurora Hauke, Senate HESS Committee Aide

Sec.	Statute	Changes
1	Uncodified law	New section FINDINGS AND INTENT added. Previously allocated $19.2 million is insufficient to perform work on API. That money plus proceeds from certificates of participation should be used to construct new API facility. $3 million has been set aside by the Alaska Mental Health Trust Authority. $58.75 million will be used to construct API, $22.2 million of which would be from previously allocated money and Alaska Mental Health Trust Authority money and $36.55 million from C.O.P.s.
2	Uncodified law	New section DELEGATION OF AUTHORITY FOR LEASE-PURCHASE AGREEMENT added. DHSS has DoA's authority to enter into lease-purchase agreement for the new facility.
3	Uncodified law	New section LEASE-PURCHASE PAYMENTS added. Lease payments are subject to annual appropriation by the legislature.
4	Uncodified law	New section NOTICE OF THE ENTRY INTO AND FINANCING OF LEASE-UPRCHASE AGREEMENT added. DHSS is authorized to enter into a lease-purchase agreement for API facility, subject to appropriation. The state bond committee is authorized to issue certificates of participation in the amount of $36.55 million for the construction. $22.2 million is paid from money described in Sec. 1. Estimated total lease payments for the full term of the lease-purchase agreement is $55 million. Title to API shall vest in the State of Alaska upon the payment of all principal and interest under the C.O.P.s. The state bond committee may contract for all related costs necessary in financing.
5	Uncodified law	New section NOTICE AND APPROVAL OF AGREEMENT added. Sec. 4 constitutes notice and approval required in statute.
6	Uncodified law	New section DEFINITION added. Construction includes cost of demolition of all or part of the existing API facility.
7	Effective date	This act takes effect July 1, 2001

Replacing Alaska Psychiatric Institute API

Alaska Department of Health & Social Services

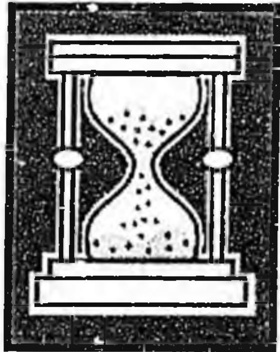
The Problem: API has Reached the End of its Useful Life!

- API is permeated with hazardous material - asbestos
- Its fire life safety and mechanical support systems are worn out
- Roof needs replacement
- API doesn't meet current seismic code

Problems (cont.)

- API was not designed as a psychiatric hospital - its physical layout is not conducive to treatment
- 39 years of hard use: open 24 hours a day, 7 days a week, 365 days a year to provide treatment to primarily indigent Alaskans needing psychiatric care
- Replacement need recognized long ago; replacement efforts ongoing over 15 years

Clearly API *must* be replaced



- Cheaper to construct a replacement facility than to abate the asbestos and make the renovations needed to make API an efficient psychiatric hospital

What solutions have been tried in the past?

Constructing a replacement facility

- Implementation halted when construction bids substantially exceeded both engineering estimates and appropriated funding

- Only sufficient funding prevented success

Solutions attempted (cont.)

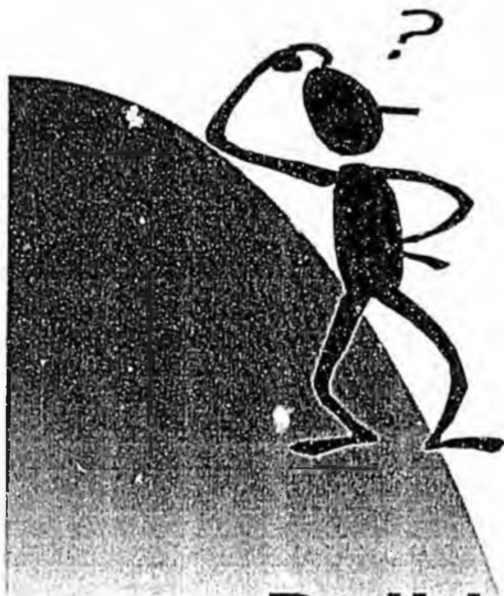
▪Strategic partnerships with neighboring institutions

- Proved unsuccessful when essential land swaps among partners could not be accomplished
- Partners withdrew

- ***Purchase a replacement***

  - Charter North Hospital was the only real purchase alternative

  - After two years, local planning and zoning decisions and strong neighborhood opposition made it impossible to complete the purchase and use the facility



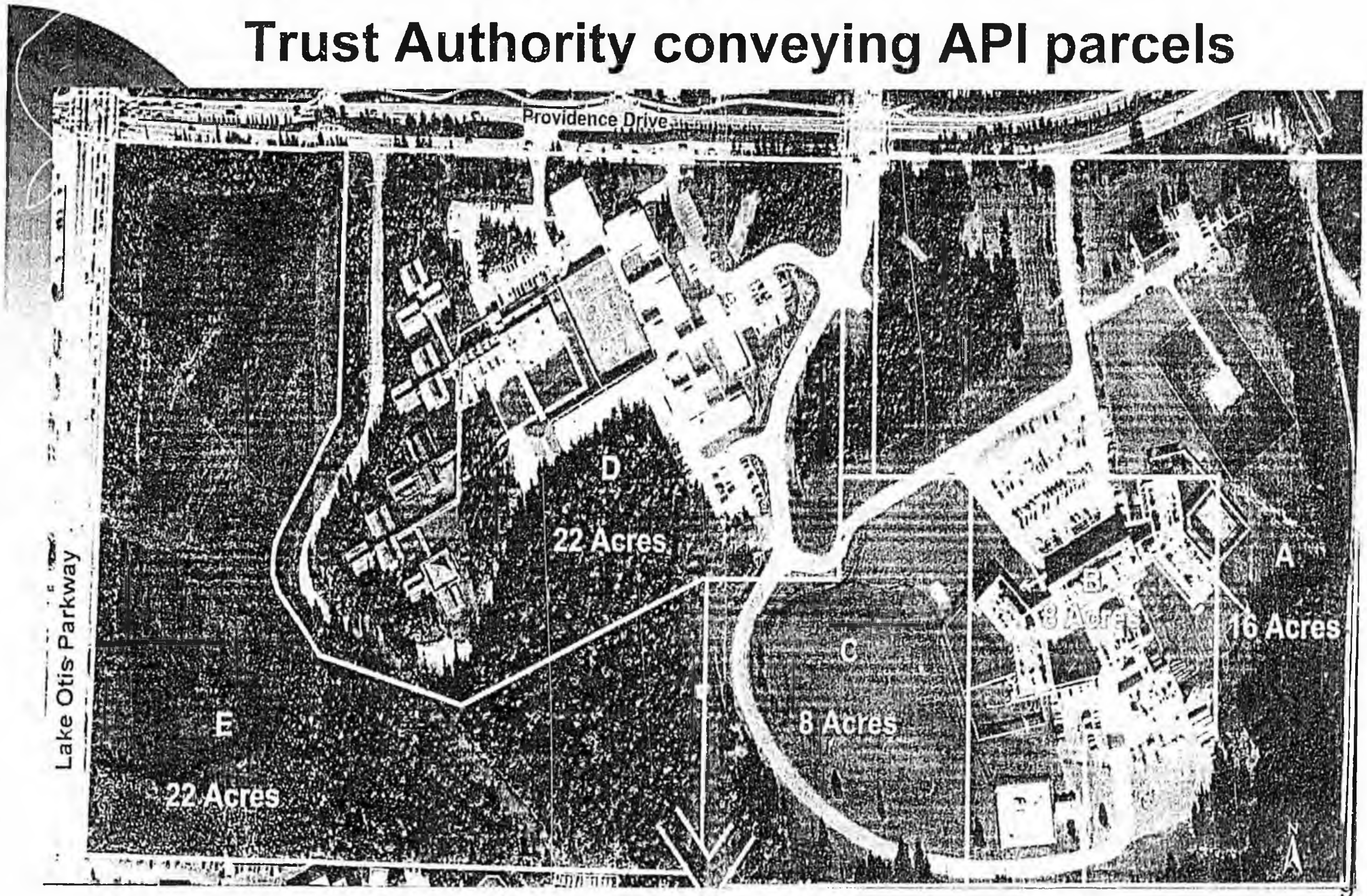
What should be done now?

Build the facility we planned!

The only realistic option for replacing API is construction of a replacement hospital on the same parcel as the existing facility

We have the land to build!

Trust Authority conveying API parcels



And building on the dedicated parcels makes sense . . .

AND:

The Anchorage P&Z Commission recommended API remain at its present site in the U-Med District

- Parcels are zoned for this use
- API is a well-established, accepted & necessary institution in its present site
- UAA nursing students do their psych rotations at API each semester
- UAA social work and psychology students intern at API each semester
- WAMI medical students and PA students rely on API as a teaching site
- The University Community Council and area residents are supportive

Solution: Finance Construction of a new API through Legislation

- HB 130 & SB 96 would finance construction of a new psychiatric hospital on the API site

- Certificates of Participation would fund the construction of a replacement hospital and demolition of old facility

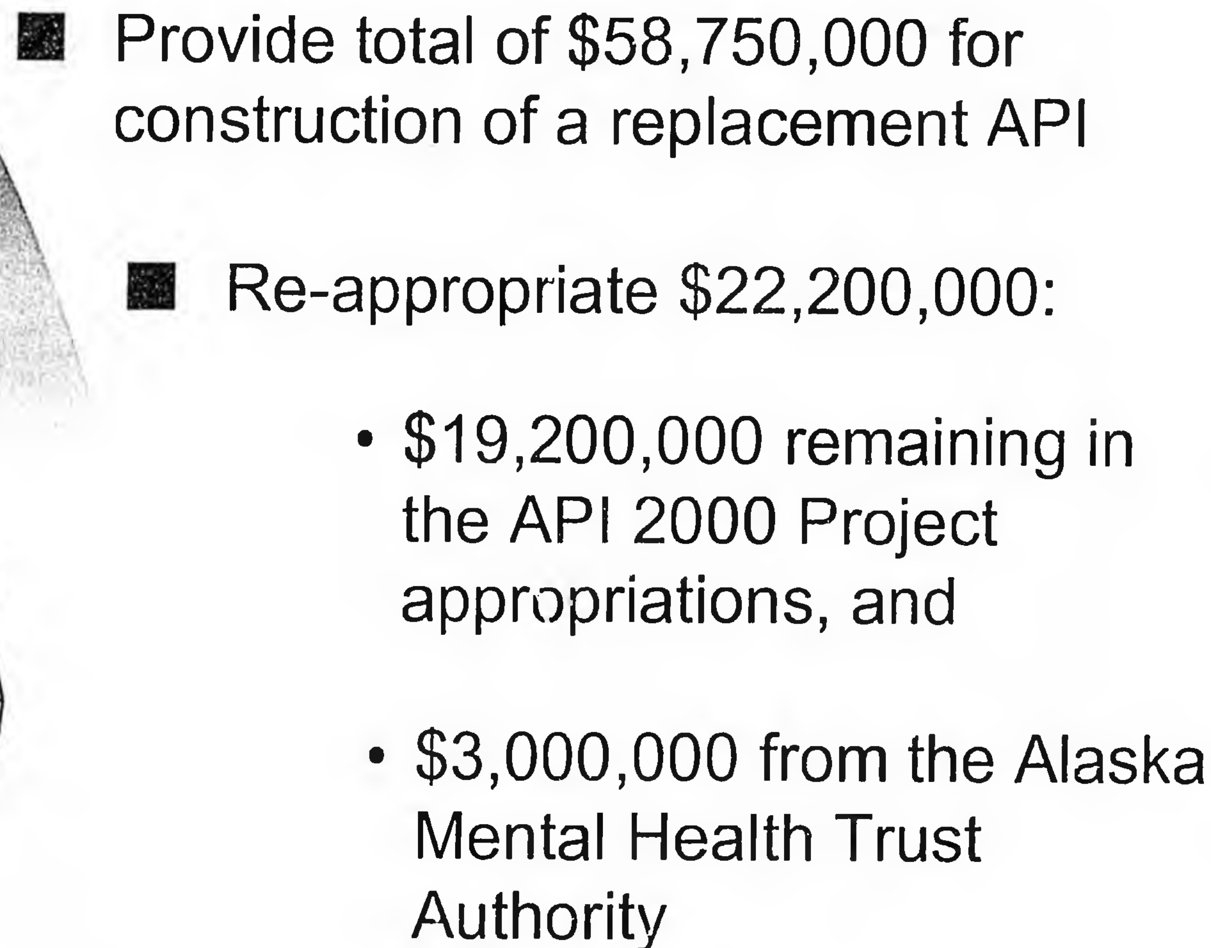
Solution (cont.)

- Build a hospital with 54 beds, expandable up to 72 beds as necessary to meet the State's need for capacity to serve civilly-committed, inpatient psychiatric patients.

Solution (cont.)

- Re-use a portion of the current building (the gymnasium and storage space beneath it) and demolish the remainder - eliminating the hazardous waste and freeing campus space.

How will the bills work?



- Provide total of $58,750,000 for construction of a replacement API
- Re-appropriate $22,200,000:
  - $19,200,000 remaining in the API 2000 Project appropriations, and
  - $3,000,000 from the Alaska Mental Health Trust Authority

How will the bills work? (cont.)

- Remaining $36,550,000 would be raised through Certificate of Participation (COP's) in a lease purchase agreement

- Availability of existing funds will lower lease payments to the State

How will the bills work? (cont.)

- Estimated total rental obligations under lease purchase agreement will be $3,700,000 annually for 15 years

- In 15 years the new hospital will revert to State ownership.

Replacement Cost & Financing

Description of Budget Component	Budget	Financing
Construction (per DOT/PF)		15 year financing period
Estimated Construction Cost	$36,030,740	
Change Order Reserve	$3,603,000	**Use Existing GF, Finance Balance**
Construction Permits	$126,000	
1% Public Art Program	$410,000	
Furnishings and Equipment	$900,000	
Sub-Total for Construction	$41,069,740	
Architecture/Engineering Consultants	$2,710,000	
Administration/Management (DOT&PF)	$1,620,000	
Administration/Management (DHSS Facilities)	$500,000	
Overall Project Contingency	$2,290,000	
Total Construction Costs	$48,189,740	$48,189,740
Plus Demolition of API Central Tower & East Wing (Project Cost):	$9,720,000	$9,720,000
Plus Interim Patient Relocation Costs:	$500,000	$500,000
Plus Cost of Financing:	$250,000	$250,000
Total Project Costs – Rounded per Department of Revenue	$58,659,740	$58,750,000
Less Balance of Prior Appropriations:	($22,200,000)	($22,200,000)
Supplemental Capital Needed	$36,459,740	
Financed Amount (Principal) – Rounded per Department of Revenue		$36,550,000
Annual Payment Amount		$3,700,000
Total Payments in Addition to Current Funds:		$55,000,000

Construction Cost Comparisons

Hospital	Construction Cost	Beds / SF	Cost / Bed	Cost / SF
API Replacement Project	$33.5 M [1]	72 / 76,000 24,600 [2] 100,760	$.47 M	$332 [3]
Elmendorf AFB	$160 M	110 / 441,170	$1.45 M	$363
Bassett Army Hospital, Fairbanks	$100 M	22 [4] / 259,500	NA	$385
Alaska Native Medical Center	$168 M	150 / 380,635	$1.12 M	$441

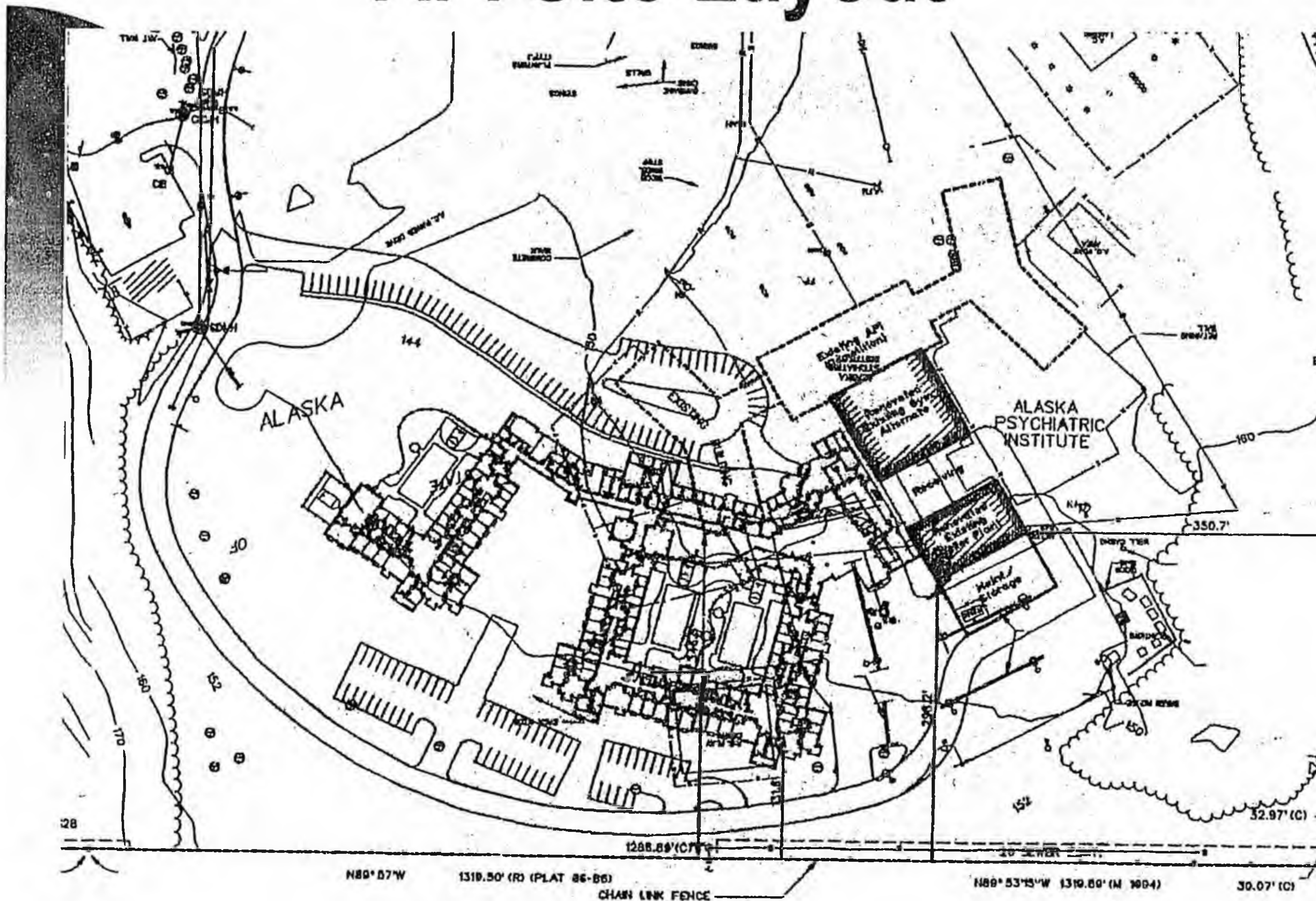
[1] Estimated cost of new construction and refurbishment is $36M - $2.5M for phased demolition of the West wing.

[2] Project also includes refurbishing 24,760 SF of existing facility for a total of 100,760SF.

[3] Cost/SF based on 100,760 SF of combined new construction & refurbishment of existing facility is $332/SF.

[4] 22 inpatient beds plus extensive outpatient facilities.

API Site Layout

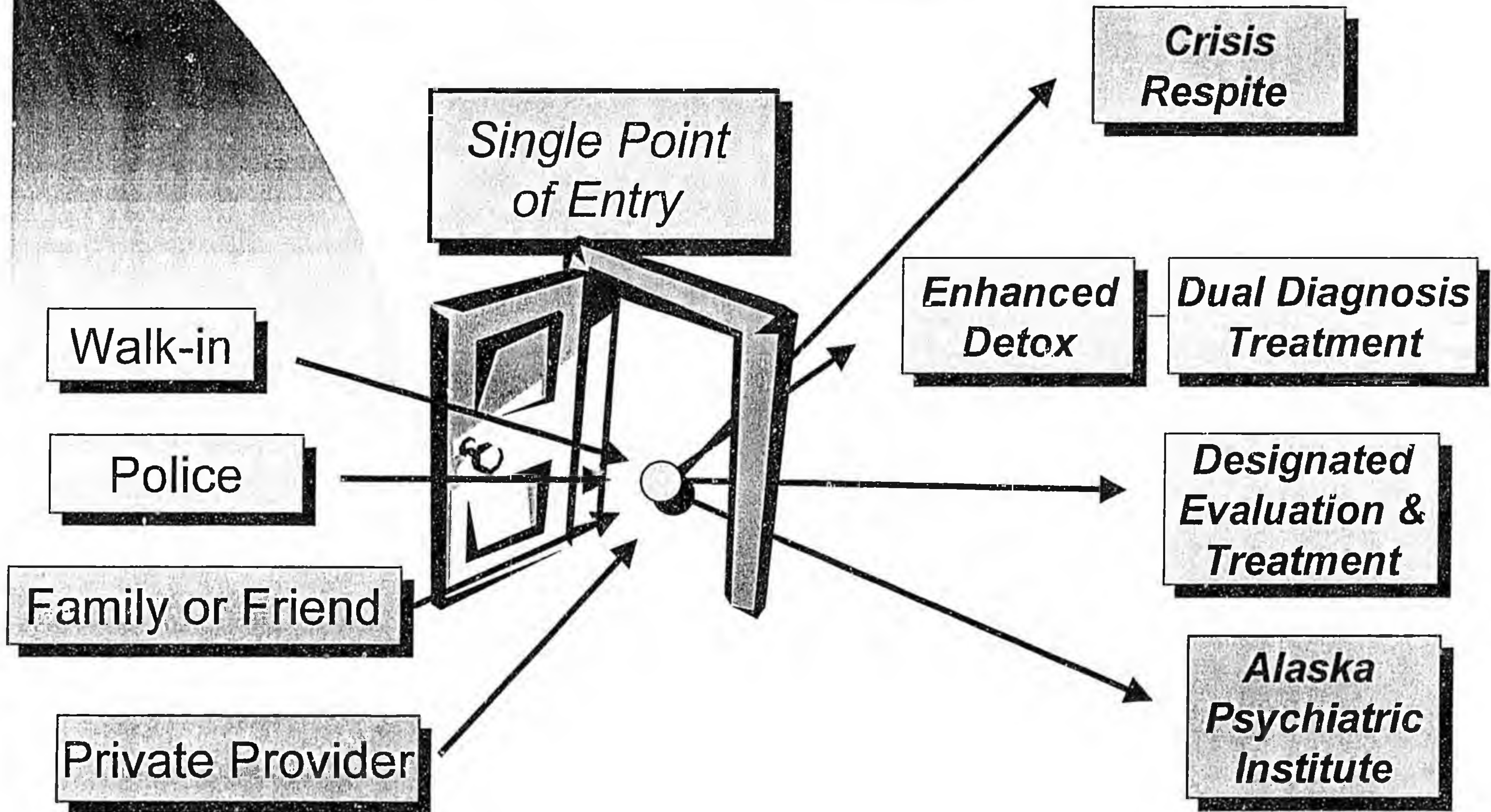


Replacing API is key to a broader effort...

Enhance the quality of care at API

Replace the API building

Private community services are under development



Why will API still be needed?

- The service is a core function of government - it does things private providers cannot or will not do
- Patient needs can exceed local private treatment options
- Inpatient treatment is nonexistent or uncertain in some communities
- The State must provide a safety net when local inpatient services are not available or not sufficient, whatever the reason
- API treats forensic and NGRI patients and provides competency evaluation services to courts

Why 54 beds expandable to 72?

- Successful operation at 54 bed design capacity is contingent on full array of private community services
- Community services are not all in place
- Patient census fluctuates above even current capacity
- Future needs are not predictable with absolute precision
- Irresponsible to build for an ideal situation without capacity to cope with emergencies or population growth

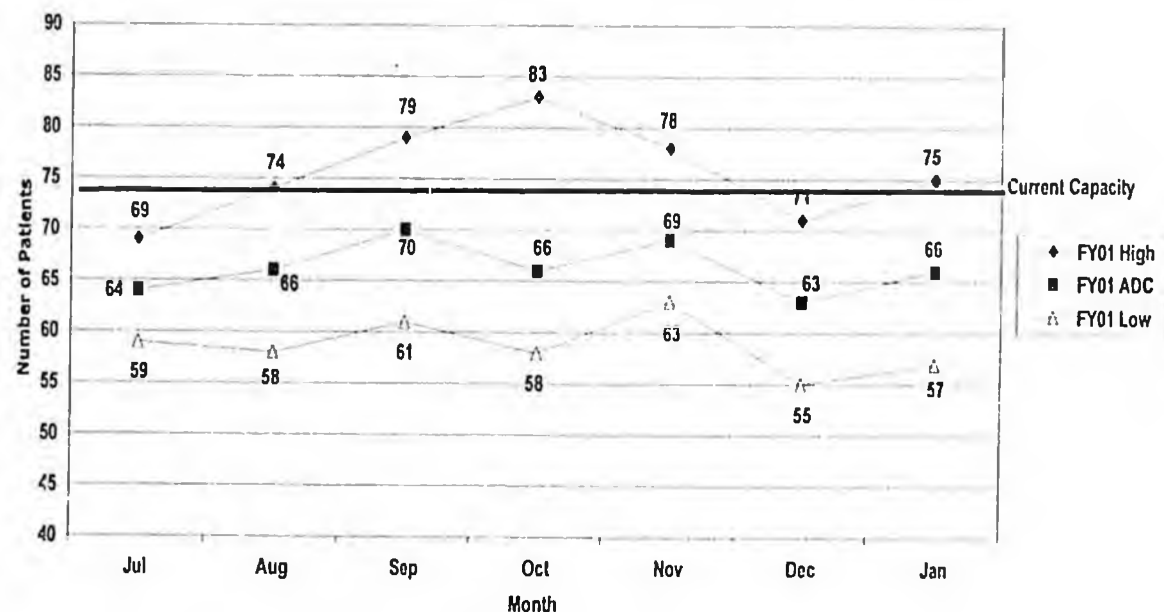
Why 54 beds expandable to 72?

As the State's safety net -
API must have a *flexible* inpatient bed capacity

AND HERE'S WHY:

The Bottom Line:

API *must* admit any person who is involuntarily committed or court-ordered to API for evaluation and/or treatment



Who can solve this problem?

The Alaska Legislature!

- By passing HB 130 or SB 96, this Legislature can finally solve this problem, and provide Alaska with a safe, modern, effective in-patient psychiatric hospital

ALASKA STATE LEGISLATURE

Interim:
600 East Railroad Avenue
Wasilla, Alaska 99654
(907) 376-3370
(907) 376-3157 Fax

Session:
State Capitol
Juneau, Alaska 99801-1182
(907) 465-6600
(907) 465-3805 Fax

SENATE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE
SENATOR LYDA GREEN, CHAIR

To: Senate HESS Members

From: Aurora Hauke, Committee Aide

Date: March 9, 2001

Subject: SB 96 C.O.P.S FOR API DEMOLITION/CONSTRUCTION

Please find attached additional information to be included in the bill packet for SB 96 C.O.P.S FOR API DEMOLITION/CONSTRUCTION which was heard on February 28, 2001.

RECEIVED

MAR 0 8 2001

ALASKA MENTAL HEALTH BOARD

TONY KNOWLES, GOVERNOR
STATE OF ALASKA

431 N. Franklin, Suite 200
Juneau, Alaska 99801
Office: (907) 465-3071
Fax: (907) 465-3079

March 7, 2001

Senator Lyda Green, Chair
Health Education and Social Services Committee
Alaska State Senate
State Capitol
Juneau, Alaska 99801-1182

Dear Senator Green:

The Alaska Mental Health Board (AMHB) would like to contribute to the discussion concerning SB 96, which proposes a plan to finance the construction of a replacement for the Alaska Psychiatric Institute (API). As we listened to the outline of the plan to replace API ably presented by API Director Randall Burns to the committee on February 28 and the questions posed by committee members, we felt that some key historical perspective should be part of the discussion.

The plan embodied in SB 96 would replace API with a 54-bed facility (expandable to 72 beds). Committee members, looking at API census data, questioned whether a hospital of that size would be sufficient to meet Alaska's need for tertiary psychiatric care. As Director Burns pointed out, a 54-bed state mental hospital providing principally tertiary care would suffice if complementary community services were in place to serve a large part of the patient load now carried by API. The 18-bed expansion capacity provides both a safety net and the ability to respond as the state's population increases.

What the committee should also know is the "story behind the story" on the 54-bed proposal. That number, along with many other elements of future API services and corresponding community services, was the product of a series of negotiating and planning processes involving all stakeholders in Alaska's public mental health system. These began in 1992 and continue today under the auspices of the Community Mental Health/API 2000 Project. The crucial thing to know is that these processes led to a hard-won consensus plan to replace the API facility and devolve many of the services historically provided by API to the community. The mental health community, consisting of consumers and families, advocates, state agencies, community providers, and other interested parties, devoted tremendous energy and resources to developing this consensus plan for a mental health system in which a 54-bed state hospital would be a core component.

The AMHB was a key player, among many key players, during these processes. While we certainly understand why committee members might question, based on current census information, the number of beds planned for the replacement facility, the AMHB believes (as do, we believe, the vast majority of the stakeholders that developed the consensus position on API) that the hospital as planned has the appropriate number of

beds. We further believe that any departure from this consensus should occur only as a result of a consensus decision. We believe that no such departure is necessary. What is necessary is the commitment and perseverance to develop the community service component (both in Anchorage and in other communities) to complement a smaller API.

It is time to replace API. It is also time to build the community infrastructure that will divert a large number of the Alaskans who now have no alternative to API. The fundamental idea is to put API in its place as an important, but smaller, element of the overall system of mental health service delivery. We hope that the committee will keep this history in mind as it considers SB 96. The AMHB would be happy to answer any questions the committee may have or provide additional materials that describe in detail its position on the future of API within the larger system. Thank you for your consideration.

Sincerely,

Pat Murphy
Chair

Cc: Walter Majoros, Director DMHDD
Jill Ramsey, NAMI-Alaska
Jan McGillivary, MHAA
Katsumi Kenaston, AKMHCWeb
Faye Nieto, Parents, Inc.

TONY KNOWLES
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 15, 2001

The Honorable Rick Halford
President of the Senate
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear President Halford:

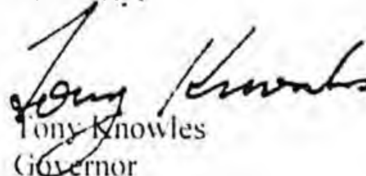
The Alaska Psychiatric Institute (API) is Alaska's only public psychiatric hospital. API provides services for persons who cannot be safely served in either community-based mental health centers or community hospitals. The current API facility dates from the early 60's, is permeated with asbestos, and must be replaced. I am transmitting this bill to finance capital construction for a replacement facility for the API.

The majority of patients at API have been involuntarily committed to treatment and come from all regions of the state. API is the ultimate "safety net" for persons who are mentally ill or otherwise suffer from mental disorders. In addition, API treats patients arrested and subsequently court-ordered to the facility for a variety of needs, including evaluations for competency to stand trial, treatment following a finding of incompetency, and persons previously found not guilty by reason of insanity.

The bill identifies funding sources for the $58,750,000 necessary for the construction of the replacement facility. There is presently $19,200,000 available from prior appropriations for this purpose that can be used for the project. In addition, the Legislature appropriated $3,000,000 in Mental Health Trust Authority Authorized Receipts for the project. A lease-purchase agreement would be security for the remaining $36,550,000, which the state would raise through the state bond committee's issuance of certificates of participation. The significant contribution of state money up front in the project will have the practical effect of lowering the lease payments because there will be additional security provided to the purchasers of the certificates of participation.

I urge your prompt and favorable action on this measure.

Sincerely,



Tony Knowles
Governor

GOVERNOR'S TRANSMITTAL LETTER

Replacing the Alaska Psychiatric Institute

It Must Be Done Now

The Alaska Psychiatric Institute (API) has reached the end of its useful life. It opened in 1962 and since then has been in operation 7 days a week, 365 days a year for 39 years, providing the space to treat primarily indigent Alaskans needing in-patient psychiatric care. Old API, designed to support 225 beds, is permeated with hazardous asbestos, its life support systems are seriously worn, its roof requires replacement, and at 137,000 sq. ft it is highly inefficient for its present 74-bed capacity. In addition, API does not meet current seismic code. Clearly, API must be replaced.

Further, Old API was never designed as a psychiatric hospital: its large, ward-like patient bedrooms hold from four to six beds per room and the units have dorm-like group bathrooms, all of which fail to provide the therapeutic environment and privacy considered minimally acceptable under current patient care standards.

> The Alaska Psychiatric Institute has reached the end of its useful life. Clearly, API must be replaced.

Finally, several engineering studies have reported that the asbestos abatement and extensive renovations needed to make the existing API a safe and appropriate healthcare facility would be more expensive than the cost of constructing a replacement.

What solutions have been tried in the past?

The Department of Health and Social Services has been working to replace API for a number of years. However, implementing a replacement solution has proven difficult to achieve.

- A previous effort to construct a replacement facility proved unsuccessful when bids for construction substantially exceeded engineering estimates and appropriated funding.
- Previous efforts to develop strategic partnerships with neighboring institutions proved unsuccessful when essential land swaps among potential partners could not be consummated and the partners withdrew.
- A recent attempt to purchase the Charter North Hospital as a replacement was stymied when local planning and zoning processes and strong neighborhood opposition made it impossible to complete the purchase and use the facility.

What should be done now?

The only realistic option for replacing API is construction of a replacement hospital on the same parcel as the existing facility.

Two bills have been introduced that would finance construction of a new hospital. House Bill 130 and Senate Bill 86 would use a proven financing mechanism - Certificates of Participation - to fund construction of a replacement hospital and demolition of the old facility. This solution will:

- Build a hospital with 54 beds, expandable up to 72 beds as necessary to meet the State's need for capacity to serve civilly-committed, inpatient psychiatric patients.
- Re-use a portion of the current building (the gymnasium and storage space beneath it) and demolish the remainder - eliminating the hazardous waste and freeing campus space.
- Avoid land costs and potential delays or land use barriers by building on the current API site, which is zoned appropriately and is being conveyed to the State of Alaska by the Alaska Mental Health Trust to assure a permanent site for API.

How will the bills work?

The bills provide funding for the $58,750,000 necessary for the construction of a replacement API facility by appropriating funds from two existing sources and financing the remainder. The bills appropriate $22,200,000 currently available from the following sources:

- $19,200,000 available from prior appropriations for construction or purchase of a new hospital.
- $3,000,000 of Mental Health Trust Authority Authorized Receipts appropriated for the project.

The only realistic option for replacing API is construction of a replacement hospital on the same parcel as the existing facility.

The remaining $36,550,000 would be raised through issuance of Certificates of Participation (COP's) by the State bond committee. A lease-purchase agreement would secure the COP's. The availability of significant existing funds as essentially a "down payment" on the project will have the practical effect of lowering the lease payments because there will be additional security provided to the purchasers of the COP's. The estimated total rental obligations under the lease-purchase agreement are $3,700,000 annually for 15 years paid as part of the State's annual debt service payments. At the end of this time, the new hospital would revert to State ownership.