



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of
Health and Social Services

Office of the Commissioner

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January 26, 2017

The Honorable Pete Kelly, President
Alaska Senate
State Capitol Room 111
Juneau, AK 99801

The Honorable Bryce Edgmon, Speaker
Alaska House of Representatives
State Capitol Room 208
Juneau, AK 99801

Subject: SB 74 (2016) Alaska Psychiatric Institute Privatization Feasibility Study

Senate Bill 74 (2016) directed the Department of Health & Social Services and the Alaska Mental Health Trust Authority to procure a study of the feasibility of privatizing the Alaska Psychiatric Institute (API). A contract for the study was awarded to Public Consulting Group (PCG) through a competitive solicitation process in July, 2016. The report is due to the legislature by the 10th day of the 30th Legislature. The contractor's final report is enclosed.

The goal of this study was to determine whether privatization of API could improve service delivery at the hospital while at the same time generating cost savings to the State without reducing quality of care. The study provides an analysis of the estimated costs and benefits to the State of privatization, and includes a review of the State's legal obligations, estimated financial costs/savings, service delivery efficiencies, quality of care and patient outcomes impact, and possible effects on other parts of Alaska's behavioral health system. The study also discusses recent state hospital privatization efforts across the country and reviews research on privatization outcomes from other types of facilities.

PCG's report identifies and assesses four categories of options: Full Privatization, Joint Operating Agreement, State Management with new Efficiencies, and Component Outsourcing. All four options assume the State would retain ownership of API's land and capital assets.

Under the Full Privatization option a private contractor would assume all operational aspects of API and the State's responsibilities would be limited to its role as a contract administrator and performance monitor. The second option would involve full privatization via the creation of a new legal entity such as a public corporation or private non-profit corporation. Under the third option the State would retain responsibility for managing API but would implement changes in operations that would be expected to occur under a private operator. The fourth option considers outsourcing certain individual components within API that could be privatized without impeding overall hospital operations, including operations of the Communication Center, Facility and Material Management services, Psychiatric and Medical Services, Nursing Services, and Comprehensive Outsourcing (all non-administrative personnel).

PCG's Findings:

Options 1 and 2: PCG's cost benefit analysis of the two full privatization options, whether under a private contractor or other public or private non-profit corporation, revealed increased costs to the state over a 5-year contract period, even after significant staff reductions, when all transition costs, contract monitoring costs, and provider margins were considered.

Option 3: PCG's cost benefit analysis of maintaining state management of the hospital – but implementing efficiencies in its administrative functions and nursing staffing patterns – revealed that this option could deliver the greatest amount of savings to the state.

Option 4: PCG's cost benefit analysis of retaining overall operational responsibilities while contracting out some or all the hospital's various service delivery and operational functions found that outsourcing Communication Center functions would be viable and would yield the highest percentage savings (though the savings would not materially impact API's budget), and also found that outsourcing Facility and Material Management would deliver a modest cost savings to the state. However, outsourcing medical staff and services, as well as all non-administrative personnel, would fail to produce cost savings. Nursing services could potentially be outsourced or modified, but there are a number of considerations that would need to be weighed carefully before the state could move in that direction.

The Department agrees with PCG's assessment and recommendation that a blended approach to privatization is in the best interest of API and the State. It is evident that continued State management with certain efficiencies is the best avenue for generating cost savings at API. This approach also avoids risks that would be involved in contracting out management of critical public infrastructure. The Department is currently reviewing the recommendations of this report with respect to areas where the Department can explore identified potential efficiencies, especially in light of its intense work around the application to CMS for an 1115 Behavioral Health Demonstration Waiver and its exploration of the management of the behavioral health system of care with the assistance of an Administrative Services Organization (ASO).

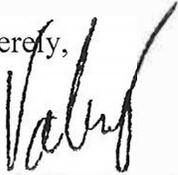
The Honorable Pete Kelly
The Honorable Bryce Edgmon

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Thank you for this opportunity to present the privatization feasibility study and the Department's and Alaska Mental Health Trust Authority's conclusions. Please contact Director Randall Burns, if you have any questions related to this study, API or the Department's behavioral health programs. Director Burns may be reached at 269-3600 or randall.burns@alaska.gov.

Sincerely,



Valerie Nurr'araaluk Davidson
Commissioner

Sincerely,



Greg Jones, Interim CEO
Alaska Mental Health Trust Authority

CC: Darwin Peterson, Legislative Director, Office of the Governor
Pat Pitney, Director, Office of Management and Budget

Enclosure: Feasibility Study of the Privatization of the Alaska Psychiatric Institute;
Public Consulting Group, January 25, 2017.