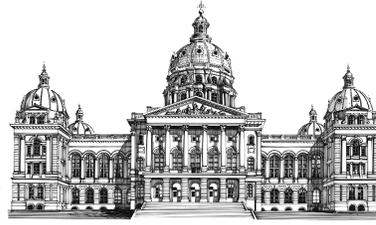

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Housekeeping and Dietary Services Staffing at the Iowa Veterans Home

ISSUE

This *Issue Review* compares the contract cost of operating the dietary services function at the Iowa Veterans Home to the cost of operation by the State, and provides fiscal details of the cost associated with converting the housekeeping services function from contract to State operation.

AFFECTED AGENCIES

Iowa Veterans Home

CODE AUTHORITY

Section 35, Code of Iowa

BACKGROUND

Based upon a recommendation from the *1991 Fisher Report of Cost Reductions* and input from the Marshalltown Economic Development Impact Committee and the Cost Reduction/Containment, Revenue Enhancement Steering Committee, on March 16, 1993, the State entered into a contract with the J. A. Jones Company to provide dietary and housekeeping services to the Iowa Veterans Home in Marshalltown. This was a five-year contract, which expired on March 15, 1998.

Following a bidding process, on March 16, 1998, the Veterans Home entered into a contract with American Building Maintenance (ABM) to provide housekeeping services and with Morrison Healthcare Inc. (Morrison) to provide dietary services. After an increase in contract costs and dissatisfaction with the services Morrison provided, the Iowa Veterans Home terminated the contract. On October 1, 1999, the dietary services function returned to operation by State employees while the housekeeping services function remained under operation by contract with American Building Maintenance.

CURRENT SITUATION

Since the return of the dietary services function to operation by State employees, October 1, 1999, there has been a legislative interest in also returning the housekeeping services functions to State employees. An analysis of the dietary services function over the past year serves as a case study illustrating the actual costs involved in making this change. During the 1999 Legislative Session, the Iowa Veterans Home estimated that they could save approximately \$95,000 in FY 2000 if the dietary services function returned to operation by State employees. However, after one year, data indicates that the cost to convert the dietary services function to operation by the State actually exceeded the cost of keeping this function under contract by \$114,475.

BUDGET IMPACT**Dietary Services Function**

Table 1 below provides a comparison between the actual cost incurred by the Iowa Veterans Home for the dietary services function under operation by the State and the cost that would have been incurred had the Iowa Veterans Home continued to contract out this function.

Table 1
Iowa Veterans Home Dietary Services

	Actual FY 2000 State Operated Dietary Services Expenses*	FY 2000 Expenses if Dietary Services under Contract
Salaries	\$ 1,982,967	\$ 138,868
Travel	122	0
Equipment Maintenance	11,580	11,580
Office Supplies	800	0
Housing Subsistence Supplies	85,524	0
Other Supplies	2,846	0
Food Costs (net)	950,242	0
Outside Repairs	0	3,000
Uniforms	9,841	0
Outside Services	968,518 **	3,812,237
Computer Software/Computers/Training	62,620	0
New Employee Costs	5,100	0
Total Cost	<u>\$ 4,080,160</u>	<u>\$ 3,965,685</u>

* Column represents expenses incurred under 9 months operation by the State and 3 months by Morrison.

** Morrison provided services for 3 months in FY 2000 before the contract was terminated.

As **Table 1** above indicates, when compared to the cost of maintaining the contract, the Iowa Veterans Home actually spent \$114,475 more by converting the dietary services functions to operation by the State. This increase in expenditures occurred for several reasons. First, seventeen employees who were continuously employed by the contractors and were State employees prior to the contract, were reinstated to pay levels as if they never left State employment and their sick leave was restored. Second, five employees who were making more money under the contract than with the Iowa Veterans Home received an adjustment to their pay retroactive to October 1, 1999. Third, the Iowa Veterans Home was mandated to offer all 75 contract employees positions. Some of these employees demonstrated poor work habits

and thus required additional training. Also, some of these employees were unable to successfully complete their probationary period and were released by the Iowa Veterans Home. This turnover created a need for additional overtime to cover the vacant positions. Other factors that contributed to the Iowa Veterans Home expending more money than originally projected in the conversion include: the Fiscal Year ended on a holiday weekend which created the need to have food inventory on hand and inaccurate estimates provided by the former contract vendor for the cost of certain software programs.

Housekeeping Services Function

Based on the costs associated with the conversion for the dietary services function, the Iowa Veterans Home has reevaluated its original estimates of the cost to convert the housekeeping services functions from contract to State employees. Below is a comparison between the cost of keeping the housekeeping services function under contract and the estimated cost of converting the function back to State operation. Data was calculated using the assumption that the conversion would be handled in the same manner in which the dietary services function conversion was handled.

Table 2
Iowa Veterans Home Housekeeping Services

Cost to State to keep housekeeping contract		Cost to commence State operated housekeeping	
ABM (American Building Maintenance) (67.0 FTE) Contract cost	\$1,871,764	Salaries and Benefits (74.0 FTE)*	\$2,263,507
Revenues to IVH for cleaning linen supplies	(12,500)	Workers compensation	47,715
IVH staff (3.0 FTE) for oversight and compliance	147,887	Employee Assistance Program (71 additional employees multiplied by \$13 per staff)	923
Pest control, garbage removal, landfill fees, etc.	69,097	Pest control, garbage removal, landfill fees, etc.	69,097
Cleaning supplies (i.e. hand soap for dispenser)	7,955	Cleaning Supplies	122,437
Travel/Training	309	Travel/Training	2,060
		Window washing contract (external only)	21,630
		Non-powered equipment (i.e mops, buckets, etc.)	15,759
		Office supplies	1,030
		Start-up costs:	
		New employee training	\$2,500
		Criminal background check	2,600
		Powered equipment	<u>56,315</u>
		Total for start-up costs	61,415
TOTAL COST	<u>\$2,084,512</u>	TOTAL COST	<u>\$2,605,573</u>

* The additional FTE's are needed to compensate for increased vacation and sick leave that employees will gain as a result of becoming State employees.

Original estimates provided in September 1999 by the Iowa Veterans Home demonstrated that the cost to return the housekeeping function to state employees would be \$2,388,846. The estimated cost of returning the housekeeping services function to operation by the State exceeded the cost of maintaining the contract by \$295,033. New estimates provided in **Table 2** above now show the difference to be \$521,061. This is an increase of 77.0% from the original estimate (\$295,033) in 1999. The Iowa Veterans Home has acknowledged several reasons for the increased estimates:

- The Iowa Veterans Home found that the return of the dietary services function to State operation caused an increased workload in the amount of product entering the facility. Therefore, an additional full-time equivalent position will need to be added to the receiving department to compensate for the increased workload that will follow the return of the housekeeping function to State operation.
- It is assumed that current contract employees who were employed continuously from the time the State of Iowa went from State operated housekeeping to contract will be hired back to State employment at the highest pay scale as if they had never left State employment. Their sick leave would also be restored.
- Shift differential pay and holiday pay was included in this calculation, since the Veterans Home would be required to make this payment to its employees.
- Employment Assistance Program (EAP) charges were added to this calculation based on the current rate.
- The State's share of health insurance increased 17.0% July 1, 2000.
- Workers Compensation was figured into the calculation now that each department is appropriated funds to cover these fees.
- An additional full-time equivalent position (Custodial Worker 1) was added to the calculation. This position will be needed to compensate for the added vacation time that employees will gain if housekeeping services return to State operation.

ALTERNATIVES

If the General Assembly decides to return the housekeeping function at the Iowa Veterans Home to State operation, the result will require an additional appropriation to the Iowa Veterans Home in the amount of \$521,061 to account for the difference in cost between the contract and the cost associated with returning the housekeeping services functions to State operation.

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