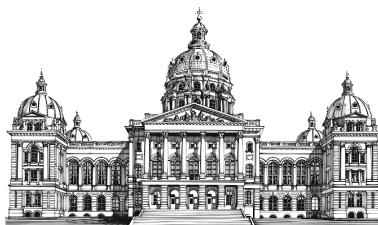


# Iowa Legislative Fiscal Bureau

Dennis Prouty  
(515) 281-5279  
FAX 281-8451



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Des Moines, IA 50319  
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## Privatization of the Dietary and Housekeeping Services at the Iowa Veterans Home

### ISSUE

An examination of the status of the privatization of dietary and housekeeping services at the Iowa Veterans Home.

### AFFECTED AGENCY

Commission of Veterans Affairs, Iowa Veterans Home

### BACKGROUND

Based upon the following recommendation from the 1991 Fisher Report of Cost Reductions and input from the Marshall 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, Iowa. The Report stated:

*We recommend subcontracting certain services at the Iowa Veterans Home. Additionally, we recommend that the Iowa Veterans Home, together with local business and industry leaders, conduct an in-depth evaluation of the manner by which services are delivered or performed in the areas of laundry, dietary, building and grounds maintenance, transportation, administration, and occupational and physical therapy to determine whether subcontracting for those services may generate additional cost savings.*

Quote from Fisher Report, Page 123

Upon review of the minutes of a September 11, 1992, meeting of the Cost Reduction/Containment, Revenue Enhancement Steering Committee, the initial annual cost savings projections due to privatization of laundry, dietary, and housekeeping services are included in the following table.

Activity	Annual Savings	Percent Reduction
Laundry	\$ 116,000	17.8%
Dietary	649,523	23.5%
Housekeeping	462,609	27.8%
Total Savings	<u>\$1,228,132</u>	24.0%

Also included in the minutes of the September 11, 1992, Steering Committee meeting was a projection of FTE positions comparing the FY 1993 budgeted positions to estimated vendor positions. The Steering Committee assumed that six FTE positions would be retained by the State at the Home to monitor services received and to assure contract compliance. The following table is a comparison of budgeted State FTE positions and the estimated number of FTE positions to be utilized by the vendor.

Activity	State FTEs	Vendor FTEs	Percent Reduction
Laundry	21.5	20.3	5.6%
Dietary	78.0	75.0	3.8%
Housekeeping	59.0	53.0	10.2%
Total Reduction	<u>158.5</u>	<u>148.3</u>	6.4%

In addition, the 1992 General Assembly allowed the Iowa Veterans Home to retain funds generated through reimbursement from any source other than the State for costs associated with the reclassification and reopening of beds. This allowance is called the Revenue Enhancement Program. In each subsequent year the General Assembly has reauthorized the Program.

The Revenue Enhancement Program had as the primary focus additional resident eligibility based upon Medicaid reimbursement with the ultimate goal of restructuring current nursing units and a four-part phase-in of 208 new beds at the Iowa Veterans Home. However, the secondary source of revenue for increasing the capacity at the Home has been the utilization of savings through the privatization of dietary and housekeeping services. Therefore, the estimated \$1.2 million savings from privatization and any revenues generated by the Revenue Enhancement Program, would not be realized by, or reverted to the General Fund; but would be rolled into the expansion of the Home. The revenue generated by increased patients through the Revenue Enhancement Program, has offset the increase in the General Fund appropriation to the Home.

**CURRENT SITUATION AND BUDGET IMPACT**

The J. A. Jones Company has been providing dietary and housekeeping services for three and one half years based upon a five-year contract. The Governor’s Office, which had final decision-making authority, decided not to contract for laundry services. Based upon inspections and reviews by regulatory agencies and an examination of resident complaints, the staff of the Iowa Veterans Home indicates that services rendered by the Jones Company have been satisfactory.

Due to the elimination of laundry services from the contract with the J. A. Jones Company, the projected annual savings on March 16, 1993, was \$1.1 million. According to the staff of the Iowa Veterans Home, the annual savings are anticipated to be realized throughout the five-year contract period. However, the actual budget impact of privatization is difficult to determine, given various significant changes in the capacity, product utilization, processes, and square footage of the Home. For example, how many FTE positions would have been required to serve additional residents due to the Revenue Enhancement Program assuming the absence of the Jones Company contract? In the following table, the Estimated State Personnel Cost assumes no change in FTE positions from the original contract date of March 1993, whereas the Jones Company contract may have included the costs for increased FTE positions. The Estimated State Food and Supply Costs are adjusted proportionately in relationship to the average bed capacity during each fiscal year. The table provides an estimate of dietary costs assuming State Personnel and Supply Costs in comparison with actual expenditures of the Jones Company contract.

<b>Fiscal Year</b>	<b>Estimated State Personnel Cost</b>	<b>Estimated State Food and Supply Costs</b>	<b>Jones Contract Actual Expenditures</b>	<b>Estimated Savings</b>
1994	\$2,294,277	\$ 824,453	\$ 2,363,948	\$ 754,782
1995	2,257,978	908,547	2,527,051	639,474
1996	2,337,206	900,370	2,861,654	375,922
				<u>\$1,770,178</u>

The Home has retained 9.0 FTE positions to oversee contract performance, monitor quality of services delivered by the contractors, and perform various other duties as necessary. The positions include, for dietary services, a Director, two Administrative Assistants, and one Clerk Typist, and for housekeeping services, a Public Service Executive Officer, two Administrative Assistants, one Clerk Typist, and a Sewing Room Attendant. Since the original analysis for projecting savings was based on the retention of 6.0 FTE positions, the overall savings for dietary and housekeeping services combined may be overestimated by \$75,000 to \$100,000 annually.

However, changes in operating bed capacity of the Home may result in an underestimated savings. Since the Jones contract has provided services to more residents than the original estimates assumed, the State Personnel Cost, based on FY 1993 FTE positions, is underestimated. The following table illustrates the number of operating beds by type at the Iowa Veterans Home at the end of each year.

Type of Care	Actual FY 1992	Actual FY 1993	Actual FY 1994	Actual FY 1995	Actual FY 1996	Est. FY 1997
Domiciliary (Residential)	111	108	110	110	110	110
Infirmatory (Skilled)	23	23	20	20	20	20
Nursing (Skilled)	447	459	611	652	637	637
Total Beds	581	590	741	782	767	767

The estimated cost savings of money and other recommendations of the Cost Reduction/Containment, Revenue Enhancement Steering Committee have been analyzed. The projected savings were valid, but given the annual change in bed capacity, the annual change in square footage to be cleaned at the Home, changes in the cost and types of products used for cleaning purposes, and billing processes of the Jones Company contract for cleaning services, a savings estimate for privatization of housekeeping services cannot be made by simply assuming no change from 1993.

Annual contract price adjustments are allowed based upon a formula using the Producer Price Index and the Compensation and Working Conditions Report issued by the United States Department of Labor. The following chart lists the actual adjustments to the contract by service.

Contract Year	Dietary	House- Keeping
1994	3.12%	3.07%
1995	3.08%	3.49%
1996	2.48%	2.50%

**POLICY IMPLICATIONS**

The difficulty in measuring the savings of privatization efforts may be minimized by contractual provisions requiring reporting of key cost indicators. For example, if the personnel costs of the contract are distinct from supply costs and reported annually to the State entity responsible for oversight of the contract, a comparison can more reasonably be made. The nature of the private sector is to conceal some cost indicators to prevent actual profit margins from competitors, criticism, or oversight. Such reporting must be contractually specified to accurately analyze actual future cost savings of any privatization effort in comparison to State provision of services.

STAFF CONTACT: Bob Snyder (Ext. 14614) Margaret Buckton (Ext. 17942)