

EVALUATION & COST-BENEFIT ANALYSIS TO OUTSOURCE FOOD AND JANITORIAL SERVICES

(FY2008 Appropriation Bill - Public Act 123 of 2007)

May 1, 2008

Section 608: By May 1, 2008, the department shall evaluate the privatization of food and custodial services at all of the state hospitals and centers and submit a copy of the evaluation to the house and senate appropriations subcommittees on community health and to the house and senate fiscal agencies. The evaluation shall include a detailed cost-benefit analysis utilizing accurate, reliable, and objective data that compares state costs versus the contractual costs over the life of a contract. If the evaluation identifies privatization savings of at least 10%, the department, in consultation with the department of management and budget, shall establish and implement a bid process to identify 1 or more private or public contractors to provide food service and custodial services at each state hospital and center.

*Michigan Department
of Community Health*



**Jennifer M. Granholm, Governor
Janet Olszewski, Director**

INTRODUCTION

Public Act 123 of 2007 Section 608, directs the Department to evaluate the food services and janitorial/custodial services at State Hospitals and Centers to determine whether privatization of these services would result in savings to the State.

I. FOOD SERVICES

A survey about the food service operations at State Hospitals and Centers was completed and submitted by each facility that currently operates their own food service program. The survey included detailed information regarding staffing, food ordering, food receiving, inventory and stocking, food preparation, food delivery, meal serving, dishwashing, cleaning of the kitchen area, and food preparation inspections and monitoring.

The food survey results from the Mt Pleasant Center, Caro Center, Kalamazoo Psychiatric Hospital and Hawthorn Center were reviewed and analyzed. There are differences between facilities due to the physical layout of each facility, types of patients being served, and programmatic needs of the patients.

In comparing the existing state food service programs with a privatized model, the current food service contract at Walter Reuther Psychiatric Hospital was used as the basis for the cost-benefit analysis. The Walter Reuther food service contract is with HDS Services. The analysis took into consideration the same assumptions as the Walter Reuther contract for the privatization of food services.

... The contractor's responsibilities shall include:

- *Provide all meal services, including special diets, themed meals, etc.*
- *Training*
- *Infection control for their employees based on hospital policy*
- *Patient satisfaction surveys are administered at least once per quarter*
- *Must provide its own outside telephone service, computer, printer, facsimile, reproductions and other office equipment and supplies*
- *Provide emergency mass feeding when required and directed by the authorities*
- *Provide its own fire, theft, and other required insurance at its own expense to cover its property located on the premises of the hospital*
- *Supply all paper and disposable goods necessary for the preparation, service, and storage of food.*
- *Furnish all labor, supplies, materials, equipment, and supervision sufficient to keep the food service areas in a clean, orderly, and sanitary condition at all times.*
- *Perform cleaning and janitorial services on a regular schedule*

... The Hospital's responsibilities shall include:

- *Provide identification badges for contractor's employees*
- *Provide the Contractor keys to elevators, lavatories, offices, and other areas necessary to enable the Contractor to fulfill responsibilities*
- *Provide parking space and lockers for contractor's employees*
- *Provide access to employee lounge*

- *Provide preventative maintenance program appropriate for hospital food service equipment.*
- *Furnish all water, gas, electricity, heat, and light for operation*
- *Furnish tray delivery system, reusable dishes, mugs, glasses, and flatware for meal service*
- *Furnish all capital and small equipment, utensils, etc. for food preparation and service*
- *Repair all permanent fixtures such as faucets, lights, sewers, air conditioning, heat, electrical, plumbing, and appropriate mechanical systems*
- *Provide internal hospital telephone system*
- *Provide extermination service to food service areas*
- *Provide internal mail delivery service*
- *Provide desks, chairs, and file cabinets for the offices*
- *Dietician services will remain the responsibility of the facility*
- *Clean patient dining areas*
- *Provide juice, bottled water and nutrition supplemental*

COST- BENEFIT ANALYSIS

The analysis used the actual food and food service labor cost at each State Hospital and Center compared with the estimated contractual costs based on the food service contract at Walter Reuther. Food costs were adjusted to include cleaning costs of the food preparation area and exclude the cost of bottled juice, water and nutritional supplements per the contract requirements.

Table 1 reflects the food cost per day/per patient and total annual food costs for each facility based on FY07 average census. Hawthorn's census includes 25 staff members who are required to eat meals with the children/patients as part of their therapeutic programming. Food service staff costs for each facility are reflected as Full Time Equivalent (FTE) positions and used the average cost per FTE for employees at that class and level within that facility. The contractual per diem for each facility was calculated based upon the contract pricing for Walter Reuther. Contract pricing per diem varies depending upon the number of meals served.

Table 1 – Comparison of State-Operated vs Contractual Food Service Program

	Mt. Pleasant	Caro	Kalamazoo	Hawthorn	Total
STATE-OPERATED:					
Food Cost/Per Day	\$5.66	\$6.99	\$4.68	\$9.39	
Average Census	158	158	160	83	
Annual Food Cost	\$326,412	\$403,113	\$273,312	\$284,470	\$1,287,307
Food Service FTEs	16.0	15.0	18.6	11.0	60.6
Average Cost per FTE	\$62,350	\$61,236	\$64,510	\$63,054	
Annual Staff Cost	\$997,600	\$918,540	\$1,199,886	\$693,594	\$3,809,620
Total Annual Cost – State Operated	\$1,324,012	\$1,321,653	\$1,473,198	\$978,064	\$5,096,927
CONTRACTUAL:					
Estimated Contract Price Per Day (Food and Labor)	\$24.22	\$23.93	\$23.13	\$29.32	
Average Census	158	158	160	83	
Total Annual Cost - Contractual	\$1,396,767	\$1,380,043	\$1,350,792	\$888,249	\$5,015,851
Estimated Savings - Contractual Services	(\$72,755)	(\$58,390)	\$122,406	\$89,815	\$81,076
Percent Savings	(5.50%)	(4.42%)	8.31%	9.18%	1.59%

The cost-benefit analysis reflects an estimated \$81,076 or a 1.59% savings to convert the four State-Operated facilities to a privatized food service operation. The total estimated food service savings of \$81,076 represents only .02% of the total FY08 operating expenditures for the four facilities. At Caro and Mt. Pleasant, state-operated costs are less than estimated contractual costs.

CONSIDERATIONS

DCH is required to provide meals to patients in order to ensure an appropriate level of care. Meals must be provided in a timely and consistent manner. Other factors must be considered in the determination of whether or not to privatize food service operations.

The first consideration is the availability of contractors at the four Hospital/Center sites that could provide food services at the estimated cost based on Walter Reuther’s contract pricing.

The second consideration is the facility’s layout, i.e., whether residential areas are located within one building or spread out in a campus-style setting. Walter Reuther’s physical layout is contained within one large building. The physical layout of the four Hospital/Center sites being

evaluated consist of multiple residential buildings and separate food preparation and/or dining areas. A campus-like setting can add to a contractor's pricing for food service delivery services. The cost analysis did not "add-on" pricing increases to reflect differences in physical layout.

The third consideration is the daily interaction of state staff with the patients. Food Service staff play an important role in the treatment of patients that would not exist under a contractual relationship.

RECOMMENDATION

Due to the extremely small estimated potential savings, DCH does not support privatizing food service operations at the four Hospital/Centers. DCH will continue to monitor food service-related expenditures and staffing levels to assure we are meeting the diverse dietary needs of patients and continue to operate a quality and efficient food service operation.

II. JANITORIAL / CUSTODIAL SERVICES

A survey about janitorial operations in practice at State Hospitals and Centers was completed and submitted by each facility. The survey included detailed information regarding staffing, supplies and materials, housekeeping responsibilities, and patient workers performing cleaning or janitorial duties. Survey results from the Mt Pleasant Center, Caro Center, Kalamazoo Psychiatric Hospital, Walter P. Reuther Psychiatric Hospital and Hawthorn Center were reviewed and analyzed.

It should be noted that there are significant differences between facilities, due to such things as, the layout of the facility, types of individuals being served and cared for, programmatic needs of the patients, and whether any patients are allowed to participate as patient workers, etc.

In comparing the existing State-run janitorial services with a privatized model, DCH utilized two existing State negotiated janitorial contracts in determining the estimated contractual cost. Contact was made with several hospitals regarding janitorial contracts, however, those hospitals utilized their own staff. The estimated contractual costs were adjusted/modified for such things as emergency cleaning requirements, 24-hour operations, inclusion of services deemed "out-of-scope" in current state contracts, and for Centers for Medicare and Medicaid Services and Joint Commission training requirements, etc. The State contracts used were the Peckham and Ever-Glo contracts that provide janitorial services in state office buildings.

COST- BENEFIT ANALYSIS

The analysis used the actual janitorial/housekeeping service costs of each State Hospital and Center and compares those state-operated costs with estimated contractual costs.

Table 2 reflects the current staff levels for janitorial services at each facility. Staff costs are reflected as Full Time Equivalent (FTE) positions using the average cost per FTE for employees at that class and level within that facility. Patient workers are excluded from the analysis. Janitorial supplies are excluded from the analysis on the basis that current state contract costs are less than contractually provided.

The State operated cost was compared with estimated contractual costs based on the two State janitorial contracts with Peckham and Ever-Glo modified to better represent what would be required in a State facility providing services to persons with mental illness or developmental disabilities. Facility square footage was used as the basis for estimating cost.

Table 2 – Comparison of State-Operated vs Contractual Food Service Program

	Mt. Pleasant	Caro	Kalamazoo	Hawthorn	Walter Reuther	Total
STATE-OPERATED:						
Current State FTEs	29.0	27.0	29.0	8.0	24.0	
Average Cost per FTE	\$65,453	\$65,254	\$65,169	\$66,479	\$66,722	
Estimated Total Annual Cost	\$1,898,137	\$1,761,858	\$1,889,901	\$531,832	\$1,601,328	\$7,683,056
Average Cost/Sq Ft	\$4.13	\$3.44	\$5.92	\$3.74	\$8.24	
CONTRACTUAL:						
Total Square Foot to be Cleaned	460,025	511,511	319,154	142,117	194,340	
Average Cost/Square Foot	\$4.30	\$4.30	\$4.30	\$4.30	\$4.30	
Annual Total Contractual Cost	\$1,978,108	\$2,199,497	\$1,372,362	\$611,103	\$835,662	\$6,996,732
Estimated Savings – Contractual Services	(\$79,971)	(\$437,639)	\$517,539	(\$79,271)	\$765,666	\$686,324
Percent Savings	(4.21%)	(24.84%)	27.38%	(14.91%)	(47.81%)	(8.93%)

The cost-benefit analysis reflects an estimated \$686,324 or (8.93%) savings to convert the five State-Operated facilities, to a contractual janitorial operation. The total estimated janitorial savings of \$686,324 represents less than .2% of the total FY08 operating expenditures for the five facilities. Due to the significant variations across facilities when cost per square foot is used, it is uncertain as to whether this is the most appropriate measure.

CONSIDERATIONS

It appears from the analysis that savings at Kalamazoo and/or Reuther through contracting or other efficiencies may be possible. DCH will further review these operations and implement staff re-assignment or other efficiencies as appropriate.

Other factors must be considered in the determination of whether or not to privatize janitorial/custodial service operations. The first and most serious consideration is the safety of

both the patients and the contractual workers and corresponding liability. Janitorial staff work directly in residential buildings and have regular, close contact with patients including medical and human waste. Substantial initial and ongoing training would be required for contractual staff who would work in environments where patients reside. Training would include health, safety, and HIPAA requirements. It would be challenging to find a quality, reliable janitorial vendor willing to work in a Hospital/Center environment.

A second consideration is how the contractual arrangement would affect the patient workers. Most facilities pay patients for doing janitorial services to assist in their habilitation/rehabilitation and programming needs. A portion of existing janitorial State staff time is used to work with and train patients.

A third consideration is the daily interaction of State staff with the patients. Janitorial staff work in close contact with patients in the residential units and play an important role in the treatment of patients that would not exist under a contractual relationship.

RECOMMENDATION

Due to the small estimated potential savings, DCH does not support privatizing janitorial/custodial services at the five hospitals/centers.

DCH will continue to monitor janitorial/custodial related expenditures to assure we continue to operate a quality and efficient program that meets CMS and Joint Commission requirements.