

-COUNTY OF MILWAUKEE-
INTEROFFICE COMMUNICATION

DATE: March 28, 2013

TO: Supervisor Mark Borkowski, Chair, Committee on Judiciary, Safety, and General Services

FROM: Craig Kammholz, Fiscal and Budget Administrator, Department of Administrative Services

SUBJECT: Fiscal Analysis of the Sheriff's Proposal to Contract with Armor Correctional Health Services, Inc. to Provide Inmate Medical and Mental Health Services at County Correctional Facilities

REQUEST

The Judiciary, Safety and General Services Committee has requested a fiscal analysis of the Sheriff's proposal to contract with Armor Correctional Health Services, Inc. (Armor) to provide inmate medical and mental health services at the County correctional facilities.

BACKGROUND

The Office of the Sheriff is requesting authorization to enter into a contract with Armor to provide all inmate medical and mental health services at the County's correctional facilities, with an initial two year term with four additional one-year renewal options. According to the Sheriff's request, this contract would provide these services at a level sufficient to achieve compliance with the Christensen Consent Decree. The proposed staffing level has been reviewed and approved by the Court Monitor assigned to review the provision of inmate medical and mental health services.

2013 Impact

The proposed contract would cost \$16,217,380 in the first year, which would have begun on April 1 and ended March 31, 2014 had the contract been approved during the March Board cycle. For the purpose of this analysis it is assumed that if the contract is approved in the April cycle, the first year will begin May 1 and end on April 30, 2014.

The 2013 Adopted Budget provides a total of \$17,568,372 in expenditures and \$40,000 in revenues, for a net tax levy cost of \$17,528,372 to operate the program. In addition, there is a capital project that would create an electronic medical records (EMR) system for the unit that has a cost of \$2,000,000, which is

funded entirely by tax levy. This brings the total tax levy cost of the program in 2013 to \$19,528,372.

Included in the adopted operating budget for the program is \$2,249,120 in legacy fringe benefit costs and \$979,741 in internal crosscharges that would not be "saved" as a result of the privatization of this service. These costs would be re-allocated across the County. This reallocation would result in a slight levy savings as additional costs are allocated to revenue-supported programs such as the Airport. However this reallocation would take place in the 2014 budget, so no tax levy reduction would be realized in 2013.

On a pro-rated basis, the 8-month operating cost for the program (not including the EMR capital project), net of revenues, legacy fringe benefits, and internal crosscharges is estimated at \$9,533,007

2013 Adopted Operating Net Tax Levy	\$17,528,372
<i>Less Legacy Fringe</i>	<i>(\$2,249,120)</i>
<i>Less Internal Crosscharges</i>	<i>(\$979,741)</i>
<u>Savable Tax Levy (12 Months)</u>	<u>\$14,299,511</u>
Pro-Rated Savable Tax Levy - 8 Months	\$9,533,007

In addition to the \$9.5 million in net operating levy, the entire cost of the EMR capital project would be saved in 2013, as no action has yet been taken to implement the project. This brings the total tax levy savings to \$11,533,007.

The pro-rated cost of the Armor Contract is estimated at \$10,811,587. Additionally, all current employees in the unit would be paid for their current holiday, vacation, personal time at 100% of their current salary rate, and for a portion of their sick balances. As of March 15, these employees have a total balance of approximately 10,900 hours of vacation, holiday and personal time; and approximately 19,800 hours of sick time. Based on current rates of pay, the estimated cost of the vacation, personal and holiday time is approximately \$289,535. It is assumed a small amount of sick time would be paid out to those who retire.

In addition, while Armor has indicated it will make an effort to retain the existing County employees, it should be assumed that some unemployment compensation costs will be realized. Only ten of the current 112 employees are eligible to retire. In 2010, when 28 Security Workers received back pay as a result of an arbitration case, their unemployment compensation totaled approximately \$99,000. Assuming a very large number of the current inmate medical and mental health employees find employment with Armor or in other areas, the estimated unemployment costs in 2013 total \$75,000. It should be noted that costs could be higher if individuals are not placed in other employment quickly.

The net impact of these items in 2013 is an estimated tax levy reduction of \$356,885, as shown in the table below.

Estimated 2013 Impact, May 1 Implementation	
Elimination of Net Operating Expenses, May 1 - December 31	(\$9,533,007)
Elimination of EMR Capital Project WO444	(\$2,000,000)
Pro-Rated Contract Cost	\$10,811,587
Estimated Unemployment Compensation Costs	\$75,000
Estimated Sick/Vacation/Holiday/Personal Payouts	\$289,535
Net Tax Levy Cost/(Savings), 2013	(\$356,885)

It should be noted that, if not for inclusion of the one-time cost of the EMR capital project, the net tax levy cost would be \$1,643,115 in 2013.

This analysis is based on the “base compensation” terms of the contract in comparison with the 2013 Adopted Operating and Capital Budgets. However, there are other terms of the proposed contract that would have an impact in 2013 and in subsequent years:

1. Section 1.5(c) of the contract, relating to limitations on medical services, provides a cap of \$800,000 on Armor’s liability for outside medical services, mainly including hospitalization, emergency transportation, off-site and specialty medical costs. The proposed contract indicates that Armor will provide many of the specialized services for which the Sheriff currently contracts (radiology, laboratory, dentistry, psychiatry), so it is assumed the \$800,000 cap would mostly apply to hospitalization costs. The 2013 Adopted Budget for this service is \$1 million. Hospitalization and transportation costs, mainly provided by a contract with Wisconsin Physicians Service, totaled approximate \$1 million in 2010, \$956,000 in 2011, and \$842,925 in 2012. If Armor is unable to reduce outside hospitalizations to below \$800,000, the impact to the County could be as high as \$200,000 annually.

2. Section 1.11 of the contract, relating to pharmacy costs, provides a cap of \$990,000 on Armor’s liability for drug costs. Total expenses on drugs were \$900,000 in 2010, \$1,065,000 in 2011, and \$920,000 in 2012. If drug expenses spike as they did in 2011, the impact to the County could be as high as \$75,000 annually.

3. Section 8.3 of the contract, related to equipment maintenance and replacement, provides that the Sheriff will be responsible for replacement costs of all equipment with a per-unit cost of \$501 or higher. No estimate exists for possible costs of this equipment.

4. Article 10, related to compensation, provides that the base rate will apply so long as the monthly average daily population (ADP) at both facilities remains between 2,400 and 2,600. If the ADP falls below 2,400, Armor would credit the County \$1.44 per inmate per day. If the ADP rises above 2,600, the County would pay Armor a per diem cost of \$1.44 per inmate per day. Data indicates that inmate population has remained within this range in recent months. However, if crime rises or other policy changes result in a higher ADP, this could have a significant impact on the County. The contract also requires, in section 3.1, that if the ADP is out of this range for an extended period of time, the staffing levels shall be adjusted, which would have a positive or negative impact on the base rate. According to data provided by the Circuit Courts, the average total population over a three-week period was 2,437.

Subsequent Year Impact

An analysis of the subsequent year impacts is difficult because the proposed contract does not include a set increase rate. Section 10.3 requires Armor and the Sheriff to come to a "mutual written agreement" on compensation for the subsequent 12-month periods.

Assuming the contract is adopted in the April cycle, the base rate would remain unchanged through April 30, 2014. After that point, assuming no significant change in the ADP, the contract would presumably rise by some inflationary amount to account for rising employee and medical treatment costs. The most recent CPI increase in the Milwaukee region was 1.9 percent in 2012. Because personnel costs and medical equipment/service costs traditionally increase at a rate higher than CPI, a 3.5 percent increase will be assumed.

Based on these assumptions, the Armor contract would cost a total of \$16,595,786 in 2014. In comparison, total operating costs for the program would be \$14,886,886, not including legacy fringe costs or internal service charges (since these costs could not be saved). In addition to these operating costs, based on experience with the EMR project at the Behavioral Health Division, it is assumed that approximately \$700,000 in consulting and licensing costs would be required in 2014 to implement the project in the second half of the year (as no progress has yet been made on the project and it is unclear when implementation might begin), or \$1.4 million on an annualized basis.

Based on these assumptions, it is estimated that the Armor contract would result in a net tax levy increase of \$1,248,900 in 2014. If, however, the cost of the contract remained flat in 2014, the net tax levy increase would be \$870,494.

These estimates do not include any possible impacts of the caps on outside hospitalization, drugs, or changes related to the ADP, or additional one-time costs needed to fund the implementation of the EMR capital project.

Estimated 2014 Impact				
Item	Jan 1 - April 30	May 1 - December 31	Annual Total	Assumption
Armor (Estimated)	\$5,405,793	\$11,189,992	\$16,595,786	3.5% Increase Effective May 1, 2014
County Personnel (Active Salary & Fringe)	\$3,831,624	\$7,663,249	\$11,494,873	5% increase in Active Costs
Operating Costs	\$1,130,671	\$2,261,342	\$3,392,013	Flat - No Increase
Consulting/Licensing - EMR Project	\$0	\$700,000	\$700,000	BHD Experience (1/2 Year)
Less: Revenues	(\$13,333)	(\$26,667)	(\$40,000)	Flat - No Increase
TOTAL County Costs	\$4,948,962	\$10,397,924	\$15,346,886	
Cost/(Savings)	\$456,831	\$592,068	\$1,048,900	

Additional Considerations

It should be noted that the proposed contract with Armor has been approved by the Christensen Consent Decree Court Monitor as a way to achieve compliance. It is possible that rejecting this proposed contract could lead to a finding of contempt by the Courts, which could have an unknown financial impact.

Medical College of Wisconsin Proposal

At the direction of the judge overseeing the legal action brought by the Sheriff related to the Christiansen Consent Decree, the County has been in contact with the Medical College of Wisconsin (MCW) to determine if an alternative arrangement can be implemented. County staff have met with representatives from the MCW and have been informed that MCW is not presently interested in providing these services for the County.

RECOMMENDATION

This report is for informational purposes only. No action is recommended.

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