

**-COUNTY OF MILWAUKEE-**  
**INTEROFFICE COMMUNICATION**

DATE: January 22, 2019

TO: Supervisor Theodore Lipscomb Sr., Chair, County Board of Supervisors

FROM: Joseph Lamers, Director, Office of Performance, Strategy and Budget

SUBJECT: Analysis of Insourcing Inmate Medical Services for the Milwaukee County Jail and House of Correction

**REQUEST**

File 18-898 from the Committee on Finance and Audit requested a report on Insourcing inmate medical services for the Milwaukee County Jail (MCJ) and House of Correction (HOC).

This report provides details pertaining to an insourcing operational analysis which is being prepared by the National Commission on Correctional Health Care (NCCHC) Resources Inc (NRI). A budget and projected expenditure summary is provided, with projected expenses based on proposed contract rates. This is followed by a preliminary in-sourcing cost analysis, which will most likely need to be updated after the NRI operational study is completed.

**BACKGROUND**

Pursuant to the Order of the Milwaukee County Circuit Court in the case of Christensen v. Milwaukee County et al., the County was required to enter into a contract with Armor Correctional Health Services, Inc. in 2013. This contract to provide inmate medical, dental, and mental health services expired on December 31, 2018. A three-month contract extension with Armor to continue these services has been executed at a cost of \$5.7 million and began on January 1, 2019. Milwaukee County must now determine whether to enter into an agreement starting April 1, 2019 with Wellpath, the vendor selected during the RFP process, for continuation of inmate medical, dental, and mental health services, for one, two, or five years (with renewal options), while the County analyzes an insourced medical services model. In addition to consideration of contract options, County Board File 18-898 requested a report on insourcing inmate medical services for the Milwaukee County Jail (MCJ) and Milwaukee County House of Correction (HOC).

## **OPERATIONAL ANALYSIS**

The Milwaukee County Department of Administrative Services has contracted with the National Commission on Correctional Health Care (NCCHC) Resources Inc (NRI) to develop an operational analysis for transitioning health care services for incarcerated persons in the county from a vendor-operated to a self-operated model. NRI has provided an Analysis Plan Brief Outline, which includes the steps and timeline for developing this analysis.

The Milwaukee County inmate medical services RFP, which was prepared in 2018, details all the services expected from a correctional health provider in order to provide high quality care for inmates at the MCJ and HOC. The operational study will identify how the County can provide these services, which are identified in the RFP, in-house. The County will need to decide what its model of care and organizational structure will be.

NRI has documented an eight step process for completing this analysis:

1. Define Models for Self-Operation
2. Identify Needed Support Health Services
3. Identify and Analyze Needed Health Services
4. Identify and Analyze Human Resources Needs
5. Identify and Analyze Information Technology (IT) Needs
6. Facilities Transition Needs Assessment
7. Billing and Reimbursement Needs Assessment
8. Risk Management Assessment

The NRI Analysis Plan Brief Outline, which is attached to this report, provides additional details regarding each of the steps in this process.

This operational analysis can be considered a first step in the development of an insourcing plan. This analysis is designed to provide the County with potential options for insourcing models, and will assist the County in deciding what its model of care will be and how it will structure its organization in order to provide the non-healthcare-related services necessary to operate a correctional health care practice. Each model may have differing impacts on the costs and feasibility of self-operation, and each must be analyzed for market tolerance. Phase I should be considered a basic analysis of the ongoing pros and cons of self-operation for each model. For example, what will the ongoing cost of HIPAA compliance as a HIPAA covered entity be? What impacts will the need for HIPAA compliance have on staffing in HR, IMSD, Corporation Counsel, the HOC, and the MCSO? Will those costs vary if we utilize a partnership model with a local hospital?

Phase I will raise all questions to be answered in later phases of the project, and will produce a complete picture of our current operational state and deficiencies. These

deficiencies will then need to be treated in future phases of the project in order to create a complete and actionable plan. Phase I will also identify areas in which County departments and staff will need to make major decisions, including, but not limited to, how we intend to handle third-party claims, billing, and reimbursement; how we will purchase and maintain an E.H.R.; how Facilities will maintain hospital space and fund major medical equipment; how we will handle HR items such as market-competitive pay, licensure and credentialing, and protected title issues, etc.

Following Phase I, additional phases will be identified to create and enact the insourcing plan.

Dr. Brent Gibson, Chief Health Officer of NCCHC, will present on this item at both the Judiciary and Finance Committee meetings.

### **BUDGET AND PROJECTED EXPENSE SUMMARY**

This section provides 2019 inmate medical services budget information, and compares the budget to the projected cost of contracts and services. This section is followed by a preliminary insourcing cost analysis.

Below is a summary of the 2019 budget and projected contract and other expenses for inmate medical services, as well as a summary of a report on 2019 Anticipated Inmate Medical Expenditures which requests to move approximately \$4.5 million of funding from Debt Service Reserves to cover increased inmate medical services costs.

#### 2019 Budget for Inmate Medical Services

The 2019 Adopted Budget provides a total of \$17,606,017 for inmate medical services. This includes \$140,000 that was budgeted within the House of Correction for a Contract Monitor to oversee the correctional medical services contract.

#### Cost of Contracting with Vendor for Inmate Medical Services

In April of 2018, the County entered into a contract with NCCHC Resources, Inc. (NRI), a consulting arm of the NCCHC to develop an RFP for correctional medical services at the MCJ and HOC. NRI was chosen based upon its expertise in the area of inmate medical and mental health standards. Through this RFP process, Wellpath was selected to provide correctional medical services at the HOC and MCJ beginning April 1, 2019. If the originally proposed five year contract with Wellpath were to be approved, the first year of the contract would cost \$19,380,180 for the provision of inmate medical services at the MCJ and HOC. The cost each year after would be as follows:

Wellpath Five Year RFP Amount					
Description	Year 1	Year 2	Year 3	Year 4	Year 5
Dental	\$411,821	\$424,176	\$436,896	\$450,000	\$463,500
Diagnostic	\$14,885,844	\$15,332,424	\$15,792,408	\$16,266,192	\$16,754,184
Health Information Management	\$458,391	\$472,140	\$486,300	\$500,892	\$515,916
Mental Health	\$3,624,124	\$3,732,840	\$3,844,824	\$3,960,168	\$4,078,968
<b>TOTAL</b>	<b>\$19,380,180</b>	<b>\$19,961,580</b>	<b>\$20,560,428</b>	<b>\$21,177,252</b>	<b>\$21,812,568</b>

### Additional Inmate Medical Service Expenses

There are additional costs associated with inmate medical services provided by MCJ and HOC which are not included in the contract awarded to Wellpath. These additional costs include on-going expenses as well as one-time expenses in 2019 only. Additional on-going expenses include pharmaceutical expenses estimated at \$931,250 in 2019 as well as specialty care cost overages estimated at \$492,500 in 2019. A Contract Monitor, which will provide fiscal and clinical oversight, is a newly requested item with a contract cost of \$373,188 in 2019. The NRI operational study is a one-time expense for 2019 at a cost of \$99,999. The three month extension for the current service provider, Armor, has an amount of \$5.7 million, which is a higher rate than the Wellpath award.

### 2019 Total Cost and Report on Anticipated Expenditures

The total estimated cost of the Wellpath contract combined with the additional expenses described above is \$22,132,072. This is \$4,526,055 higher than the 2019 Adopted Budget of \$17,606,017 for inmate medical services. A report, resolution and fiscal note to fund all anticipated expenditures related to correctional medical services has been submitted.

Inmate Medical Items	2019 Anticipated Expenditures	2019 Budget	Variance (Fund Transfer)
Armor 3 month extension	\$5,700,000	\$16,616,017	\$3,619,118
Prorated Wellpath Contract Amount	\$14,535,135		
NRI Insourcing study	\$99,999	\$0	\$99,999
Contract Monitor	\$373,188	\$140,000	\$233,188
Pharmaceuticals cap	\$750,000	\$750,000	\$0
Estimated Pharmaceuticals overages (25% County portion)	\$181,250	\$100,000	\$81,250
Estimated Specialty Care overages (50% County portion)	\$492,500	\$0	\$492,500
	<b>\$22,132,072</b>	<b>\$17,606,017</b>	<b>\$4,526,055</b>

The report and resolution requests to move funds from the Debt Service Reserve (DSR). The DSR currently has a balance of \$24.7 million, after taking into account a \$3.3 million withdrawal to support the 2019 operating budget. If this \$4.5 million inmate

medical services transfer is approved, the DSR balance will be reduced to approximately \$20.2 million. It is currently anticipated that the DSR will be replenished by approximately \$5.0 million after the 2018 year-end close, based on recent expenditure projections prepared by the Comptroller's Office. This surplus estimate is however subject to change as the year-end close is not completed.

The \$4,526,055 expenditure amount was determined based upon the 5 year contract cost with Wellpath. If a different contract option is selected, this would change the estimate needed. A two year option with Wellpath would require an additional \$145,351 for the pro-rated increase in the cost of the contract in 2019. A one year option with Wellpath would require an additional \$592,953 for the pro-rated increase in the cost of the contract in 2019.

### **PRELIMINARY INSOURCING COST ANALYSIS**

The Department of Administrative Services, with cooperation from other County departments, has prepared an initial draft analysis which estimates the cost of providing inmate medical services in-house at the MCJ and HOC. It is very important to note that this cost analysis has been prepared prior to the completion of the operational analysis being prepared by NRI. Given NRI's expertise in correctional medical and mental health services, it is almost certain that they will identify unforeseen expenses which are not included in this initial cost analysis. In addition, there are certain items for which the cost has not been quantified for this report, most notably insurance and risk management. A revision to the cost analysis will need to be prepared after NRI completes their operational study.

The preliminary cost analysis prepared by the Department of Administrative Services estimates the annual cost of providing correctional medical services in-house at the MCJ and HOC to be \$23,231,651. Note that this amount does not include the cost of medical malpractice insurance, as an estimate for this cost is not yet available, for numerous reasons detailed below. It can be reasonably assumed that the cost would be significantly higher with this expense factored in.

The annual cost of contracting for the same services is estimated to be \$21,177,118. This is based on the full annual year one cost of the Wellpath contract, combined with other costs including pharmaceuticals and outside medical expenses. This amount does not take the three month Armor extension cost into consideration because this is expected to be a one-time cost for 2019 only.

### **Insourcing vs Outsourcing Cost Comparison (Exhibit A)**

Exhibit A, which is attached to this report, provides a breakout of line items included in the insourcing vs outsourcing cost estimate. The total outsourcing amount shown on Exhibit A is based on year one of the Wellpath bid of \$19.38 million. Since the Wellpath bid does not break out costs by category, the line item details in the outsourcing

analysis are estimated based primarily on available Armor contract rate information. The following areas highlight and further explain major areas of expenditures identified by the analysis.

### **Medical Personnel Services**

The 128.8 FTEs required by the Christensen Consent Decree would cost approximately \$12,718,286. This estimate was determined using Armor 2018 pay rates and including Milwaukee County benefits. Additional pool staff would be needed to cover sick time, vacation, leaves of absence and hours that cannot be covered by full-time employees due to staffing shortages. Added coverage hours, overtime and shift differential could cost another \$2,464,574 or more. This brings the annual personnel services total for required positions to \$15,182,860.

### **Formation of a Department of Medical Services**

If a Department of Medical Services is created to oversee inmate medical at the MCJ and HOC, it will require, at minimum, a department head, Deputy Administrator, an Administrative Assistant, a Financial Manager, a Fiscal Analyst and two Human Resources Business Partners. These positions would be in addition to the 128.8 FTEs required by the Christensen Consent Decree and have an estimated annual cost of \$847,238. The Department would also house a contract monitor. A RFP was recently completed for this position and a contractor was selected to carry out these services at a cost of \$373,188. These positions, including medical department staff and human resources support, plus a contract monitor, come with an estimated cost of \$1,220,426.

### **Physician and Psychiatrist Staffing Agency Costs**

As is done at Milwaukee County Behavior Health Division (BHD) it may be necessary to utilize a staffing service for Physicians and Psychiatrists to ensure that these positions are covered as mandated. This service and the clinical hours it would provide, comes with an estimated cost of \$605,896.

### **Wellness Coordinators**

The Sheriff's Office has three positions assigned to performing Wellness checks at an estimated annual cost of \$354,942. Under an outsourced model it is anticipated that this role would be taken over by the contract provider. It remains to be determined if these staffing function would be required under an insourced model. This requires further evaluation in the operational analysis.

### **Claims Processing Staff**

Since claims processing would no longer be provided by a vendor, it would be necessary to hire staff to take over this function for correctional medical services. It is estimated that this would require a minimum of 3 FTE, one Accounts Manager, one

Billing Coordinator and one Assistant Medical Billing. This would come with an estimated cost of \$219,548.

### **Possible Sign-on Bonuses**

\$5,000 sign-on bonuses are currently paid to new registered nurses at Milwaukee County BHD. Area hospitals such as Aurora are currently paying \$6,000 sign-on bonuses to nurses. It was assumed for this analysis that a minimum of \$5,000 sign-on bonuses would need to be paid to attract nurses to work at HOC and MCJ as well. The total estimated annual cost for sign-on bonuses is \$165,000.

### **Electronic Medical Records**

Currently, Armor utilizes Core EMR as its Electronic Medical Records (EMR) system. Per the 2018 Armor contract, if Milwaukee County no longer contracts with Armor and decides to retain Core EMR, the cost would be \$1.50 per inmate per month or approximately \$41,400 annually depending upon average daily population at the MCJ and HOC. The potential contract with Wellpath allows for the County to retain its system after the contract ends as well. The cost for this would be \$0.075 per inmate per day if the County retains the EMR, or approximately \$62,963 annually, depending upon average daily population.

If Milwaukee County were to provide inmate medical services in-house, it would likely find a number of EMR systems that could be utilized. In addition to the option to purchase Core EMR from Armor and the possibility of purchasing the EMR from Wellpath in the future, the two systems that were explored in this analysis were Wisconsin Statewide Health Information Network (WISHIN) and EPIC.

WISHIN is an EMR already utilized by Milwaukee County Behavioral Health Division. In April of 2017, Milwaukee County completed an RFP to determine the cost of implementing WISHIN for the MCJ and HOC. In 2017, this cost was \$12,000 annually.

EPIC was also recommended as a potential EMR system that could connect the County with area hospitals, many of whom use the same software. In discussion between the County and EPIC, EPIC revealed that the complexity and cost of outright purchasing the EPIC solution would not make sense for Milwaukee County Jail and HOC. EPIC was unwilling to provide an official budgetary number unless they came in to perform an assessment on needs, but they did provide a rough estimate of between \$8-10 million. This would include licensing and professional services.

EPIC did, however, recommend the possibility of working with the Medical College of Wisconsin or Aurora hospital to extend their EPIC solution to the County through a "Connect Program". IMSD is currently working to explore this option, but a cost estimate is not yet available and project duration is expected to be 9-12 months.

### Claims Processing System

At present, the vendor providing inmate medical services at the MCJ and HOC uses their own claims processing system. To determine what it could potentially cost the County to purchase this service, Behavior Health Division was contacted. They currently use a claims processing system customized to focus on mental health services. They pay \$870,000 annually for the software and licensing agreement and pay an additional \$776,000 annually for labor and customization, for a total cost of \$1,646,000.

An additional amount of \$12,000 is paid annually by BHD for "claims scrubbing" services to bill Medicaid and other insurance. This was excluded from the cost analysis for inmate medical services as it would likely be less complex as far as Medicaid eligibility, than claims BHD handles. However, because the two entities are not entirely comparable, a more reliable estimate is difficult to determine until a RFP process is completed.

### Pharmaceuticals

If the County decides to contract with Wellpath to provide inmate medical services, the agreement requires that the County pay up to the established cap of \$750,000 and then split the overage costs 25% and 75%. The County pays 25% and Wellpath pays 75%. This allows for risk and payment sharing of a portion of costs above the cap. Expected pharmaceutical overages could total \$725,000 or more. This means the County would expect to pay \$931,250 under the contract. If the County were to insource inmate medical, it would be required to pay the full cost of pharmaceuticals, estimated at \$1,475,000 or more for 2019.

Pharmaceutical Expense Summary		
Description	Inourcing Estimate	Outsourcing Estimate
Cap Amount	750,000	750,000
Over Cap	725,000	181,250
Total	1,475,000	931,250

*\*Inourcing over cap = 100%*

*Outsourcing over cap = 25%*

### Specialty Care

Specialty care includes offsite services (local hospitals) and onsite services provided by specialists that are not employees of the contractor. If the County decides to contract with Wellpath to provide inmate medical services, the agreement requires that Wellpath pay up to the established cap of \$800,000 and then split the overage costs 50% and 50%. Based on past history, these overages present a total cost of \$985,000. If the County contracts with Wellpath, they would split the overages for a total cost of \$1,292,500. If the County were to insource inmate medical, it would be required to pay



the full cost of specialty care provided for the MCJ and HOC, as well as the \$800,000 cap, or \$1,785,000.

<b>Specialty Care Expense Summary</b>		
<b>Description</b>	<b>Insourcing Estimate</b>	<b>Outsourcing Estimate</b>
Cap Amount	800,000	800,000
Over Cap	985,000	492,500
<b>Total</b>	<b>1,785,000</b>	<b>1,292,500</b>

*\*Insourcing over cap = 100%*

*Outsourcing over cap = 50%*

### **Medical Malpractice Insurance**

Risk Management has been requested to provide an analysis of the Professional Liability insurance associated with the above Resolution.

In order to perform this analysis, multiple aspects were reviewed. These are listed below:

- 1) Discussions regarding the process of marketing this exposure with Aon, Milwaukee County's insurance broker, occurred. Aon has provided a list of the - required claims data necessary to obtain market insurance quotes. There are only two markets available for this type of insurance coverage, so competition is limited. Pricing is based on loss history, so if the claims history is unfavorable, the pricing will also be unfavorable, and potentially cost prohibitive.
- 2) Risk Management requested the claims information required from Armor Correctional Services to determine insurance cost projections. Armor has not released this data to date. Risk Management is continuing to pursue this information to assist in providing insurance premium projections.
- 3) Wisconsin County Mutual Insurance Corporation, (WCMIC) the County's public entity liability insurance carrier, was able to provide a limited loss history for 5 years prior to the Armor agreement. WCMIC covers the civil rights allegations associated with jail claims, but has never covered the medical malpractice exposure, a key component to determining the liability. WCMIC has information on all losses where Milwaukee County is a co-defendant with Armor but does not have the expenses associated with the medical malpractice claims- costs incurred solely to Armor. In addition, claims where Armor may be the only named defendant are not available, leaving an unknown, potentially very large exposure. Information from WCMIC shows the County has seen a reduction in the number of claims, however, the severity has certainly spiked. This is in part due to a

change in the litigation environment over recent years. Also, there are many instances with multiple causes of action, which there can be multiple plaintiff awards. Without Armor in place, the County will be liable for the entire loss in these mixed claims. The WCMIC data does not provide enough information to project insurance or claim costs.

- 4) The insurance requirements required on this contract have changed as the exposure has changed. The previous Armor insurance requirements were \$1M per occurrence, and \$5 million Aggregate. This is significantly less than current RFP requirements of \$2 million per occurrence and a \$5 million aggregate with a \$10 million policy umbrella.

Based on the information available, self-funding the medical malpractice exposure at the jail would likely be the only option available to the County for this liability, but assets needed to reserve for the losses sufficiently are unknown at this time. Risk Management will continue to pursue data from Armor and work with the Comptroller to project the potential required self-insured reserves.

#### **Other Potential Costs Not Included**

Despite the measures taken for hiring and retaining the mandated medical staff, Armor has had significant difficulty filling these positions over the years. Higher rates of pay than those assumed in this analysis may be necessary to attract quality applicants to fill certain required positions. This would obviously increase the cost of personnel services to the County.

When adding new staff, it is always necessary to estimate costs such as unemployment and worker's compensation. These will also increase personnel costs. An unemployment estimate has been included in this analysis, but worker's compensation is much more difficult to estimate. Because this is only crosscharged to revenue orgs, it would become an overall cost to the county and would need to be explored further by Risk Management to determine the expected additional cost.

This analysis is primarily focused on on-going costs. There are additional one-time costs, for expenses such as facilities, human resources, training, and other items, which may need to be covered under an insourcing model. NRI is considering one-time costs in their insourcing analysis.

#### **RECOMMENDATION**

Aside from analyzing the costs associated with providing quality inmate medical, dental and mental health services to inmates at the MCJ and HOC, a critical component in researching this request is to determine the different self-operating options for providing these services and an implementation plan to transition the model of care responsibly. Attached is an operational study proposal (Exhibit B), as previously provided to the

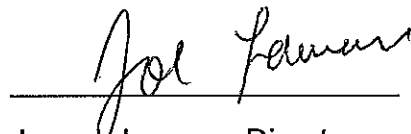
County Board, and executed with NRI, the consulting branch of the National Commission on Correctional Health Care. This study will provide Milwaukee County with a basic outline of the steps, timeline, and expenses for developing an operational analysis for transitioning health care services for incarcerated persons in the county from a vendor-operated model to a self-operated model.

This insourcing analysis will identify and analyze the health services needed for the County's population, human resources requirements, define various models of self-operation and governance, identify required support systems, analyze information technology needs, determine facility considerations, develop a plan on how to operate billing and reimbursement operations, assess risk management concerns, and provide an independent cost projection and implementation timeline.

It is recommended that Milwaukee County allow NRI to complete a thorough cost and operational analysis prior to the County committing to implementation of a self-operating model. This will ensure responsible transitioning and allow for more accurate budgeting of necessary funding for inmate medical, dental and mental health services.



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