DMH Southeast Emergency Services Program Privatization Analysis

Form 3 Contract Performance Costs

APPENDIX C (Form 3)

Contract Performance Costs

		Amount
1. Contract Price	$	5,617,171
2. Contract Administration	$	-
3. Transition Costs	$	1,014,158
Unemployment benefits	$	954,158
Retirement benefits		
Other transition costs (one time start up payment)	$	60,000
Gain or loss on disposal of assets		
Other revenue (deduct)*		
Savings (deduct)		
4. Lost Tax Revenue	$	-
5. State Income Tax (Deduct)	$	-
Total Contract Costs	$	6,631,329

	Signature	Title	Date
Prepared By	Stephen Barmud	CFO	12/29/15
Approved By (Head of Agency)	John Mikula	Commissioner	12/29/15

*As reflected in the supporting documents, the Contract Price reflects the increase in the PMPM (per member per month) rate that MassHealth will pay to its contracted MCO's for the provision of ESP services in the Southeast Area as well as the cost to DMH to reimburse MassHealth for services provided to the uninsured, and additional costs borne by Masshealth for the "Fee for Service" population (those covered by third party payors, such as Medicare or private insurance). DMH expects that the increase in the PMPM will also result in an increase in federal reimbursement to the Commonwealth, equal to an estimated 50% of the costs associated with the PMPM rate increase (i.e., 50% of $3.4 million, or up to $1.7 million per year). This will result in increased savings to the Commonwealth (in the "Other revenue" category). While these federal reimbursements were included in the calculation of revenues in Forms 2 and 2a (in-house costs), they are not included in the Contract Price as a conservative measure, since the entire amount must be paid initially from Commonwealth funds.

Supporting Documentation

Financial Notes Overview

The following financial notes have been drafted to provide specific insights related to the completion of Forms One, Two, and Three which are aggregations of costs incurred by the Commonwealth through the operations of four emergency service program based in:

- Brockton, MA at the Brockton Multi Service Center (pages 539 – 573);
- Norton, MA at the Taunton / Attleboro Emergency Service Location (included in Brockton notes);
- Fall River, MA at the Corrigan Mental Health Center (pages 574 – 598). And
- Pocasset, MA as well as on Martha's Vineyard and Nantucket islands (collectively referred to as the "Cape and the Islands") (pages 599 – 628).

These forms have been prepared separately in accordance with the guidance provided in the Guidelines for Implementing the Privatization Law as published by the Office of the State Auditor in June 2012.

Form 1 Notes

The in-house cost estimate is the total avoidable costs calculated in Form 2 including all cost savings associated with the management study's conclusions.

Final costs savings as cited on row C on Form 1 is based on the first transition year following the proposed privatization.

Form 2 includes two separate expressions of the in-house cost estimates for each transition year. The first titled "Avoidable Costs" is based on total in-house costs, including avoidable costs only. The second column titled "Avoidable Cost*" includes avoidable costs while also considering all expense and revenue implications identified within the management study.

For year one, a total estimated management study savings of $904,120 was estimated, however $141,904 of this was attributed to the CCBC contract for Runaway Assistance Program services. These funds were not included in the initial in-house cost estimates, therefore they are not included in the difference between FY16 totals and the Avoidable Cost* totals for FY16. As a result the overall cost savings for year 1 appears as $762,216.

Form 2 Notes

Various data sources were used to complete all necessary accounting efforts in the development of Form Two. These sources primarily include previously certified and submitted Uniform Financial Reports (UFR) and the Medicaid 403 reports for each of the facilities included in this privatization study.

Additional internal DMH personnel data was also considered. These exact data sources have been cited as applicable throughout the following financial notes.

All current budget year data is based on FY14 information with the exception of certain salary data which were based on point in time estimates taken at the end of CY14 (December 31st, 2014). The ESP program uses a number of sub-unit codes for cost tracking purposes; these codes are referenced throughout these financial notes and are derived from the DMH chart of accounts.[1]

All expenses incurred in Form 2 are categorized as either avoidable or unavoidable. Under direct costs, all personnel costs incurred have been classified as avoidable under the privatization effort. Additionally, material and supply costs will be avoidable as these expenses are tied directly to the services currently provided in-house.

DMH was anticipating moving their Pocasset facility to a more central location in Hyannis. Through preliminary efforts to identify these anticipated costs, DMH received two bids from prospective locations (totaling $135,920/ year and $169,226 / year). The average of these two estimates per year were included as likely rent expenses in FY 17 and FY18. The proposed relocation would also require an estimated additional $34,000 in likely moving expenses. This was included as one-time FY17 cost bringing the total expense for FY17 to $186,573. This contract can be found in exhibit 22 on page 626.

All directly attributed depreciation, administration, plant maintenance, plant operations and housekeeping costs are categorized primarily as avoidable cost. However, it was assumed that 10% of all of these direct costs for the BMSC should be considered unavoidable as this facility is currently owned by the Commonwealth of Massachusetts and thus would not be closed entirely under a privatization effort.

In the category of other costs, avoidable costs included travel and other employee reimbursement and payroll taxes. Office equipment leases were determined to be avoidable so long as DMH were to act in good faith by giving proper notice to building owners in advance of the termination of leases.

Finally, subcontracted direct care, medical records, contracted observation beds, medical staff and leased equipment are 100% avoidable as all costs are tied specifically to the direct provisioning of services provided.

Total revenue at each ESP facility was incorporated into the cost forms to determine an accurate calculation of the operating profit/loss in total for the four SE ESP locations. Total revenues for each facility were pulled from the document titled FY14 Revenue by Payer (included in exhibits below).

[1] http://www.mass.gov/osc/docs/close-open/co-expenditure-classification-handbook.doc