Executive Summary

I. Introduction

The Department of Mental Health (DMH) proposes to privatize its current state-operated Emergency Services Program (ESP) in the DMH Southeast Area of the state. Under this proposal and as described below, ESP services in the Southeast Area would be provided through managed care entities (MCEs) under contract to the Executive Office of Health and Human Services. This document and the attached exhibits demonstrate that DMH has fully complied with the Commonwealth’s privatization law, M.G.L. c.7, §52, et seq. (Privatization Law), and that the proposed privatization would result in first year savings to the Commonwealth of approximately $6,400,000, with successive year savings of similar amounts without a reduction in the quality or level of services provided. The private providers would be required to meet or exceed the same performance standards that DMH has been required to meet as an ESP provider.

The ESP is a Medicaid-covered behavioral health service available to MassHealth members, uninsured individuals, and others experiencing psychiatric emergencies. The program offers 24 hours per day, seven days per week crisis assessment, intervention, and stabilization services. Throughout the state, with the exception of the DMH Southeast Area, these services have been provided by private contractors for nearly 20 years. The service areas in which DMH provides this Medicaid service comprise four of the 21 ESP service areas statewide.

II. Background

A. The Roles of MassHealth and MBHP

The Executive Office of Health and Human Services, through MassHealth, administers the Commonwealth’s Medicaid program. With both state and federal funding, MassHealth pays for health care for a substantial portion of low and medium income people living in Massachusetts. MassHealth behavioral health services are provided by a network of providers that are under contract with one or more of the state’s MCEs, and in most cases directly with MassHealth. MassHealth pays MCEs an actuarially determined per-month capitated rate for each member to cover all behavioral health services the member might require.

To ensure provision of consistent, high quality ESP services across the state, MassHealth has contracted with the Massachusetts Behavioral Health Partnership (MBHP) to procure and

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1 The MassHealth MCEs include the Massachusetts Behavioral Health Partnership, Boston Medical Center HealthNet Plan, CeltiCare Health Plan of Massachusetts, Fallon Community Health Plan, Health New England, Neighborhood Health Plan, and Network Health.
2 Public Consulting Group of Boston provided extensive assistance in preparing this proposal, analyzing data, performing cost analyses, and ensuring compliance with the Privatization Law.
3 The ESP performs crisis assessments; short-term crisis counseling; crisis intervention; crisis stabilization; medication evaluation; and client observation services. The ESP also includes a Mobile Crisis Intervention (MCI) service specifically for children. A more comprehensive description of the ESP is included in the MBHP/MassHealth contract, attached in Section 2: “Written Statement of Services” Appendix VII.
oversee a network of providers who are qualified and have the capacity to provide ESP services in accordance with the service specifications and quality measures established by MassHealth. Each MCE is required to contract with this same network of providers to ensure that ESP services are available to all who qualify for them. As with its other providers, each MCE negotiates a separate contract with the ESP providers, paying rates determined by those separate negotiated contracts. The MBHP/MassHealth Contract is attached as part of Section 2: “Written Statement of Services” Appendix VII.

All ESP providers, including DMH, are required to meet MBHP’s quality and performance standards, which reflect the MassHealth Medicaid requirements. Through quality management, as explained more fully below, MBHP ensures that ESP providers meet these standards.

B. DMH’s Provision of Emergency Services
DMH has three state operated community mental health centers (CMHC) in the southeast area of the state: The Brockton Multi-Service Center (BMSC) located in Brockton; the Cape Cod and the Islands Community Mental Health Center (CCICMH) located in Pocasset; and the Dr. John C. Corrigan Mental Health Center (JCCMHC) located in Fall River. All three CMHCs provide a variety of state operated services, including locked acute hospital services (at CCICMH and JCCMHC), and community support services for adults, children and adolescents. DMH employees provide ESP services connected with these sites and at a separate Taunton/Attleboro site. These four ESPs are among the 21 ESP service sites throughout the Commonwealth. The others are all managed by MBHP.

Nevertheless, some of the DMH emergency services components are already provided by private providers. For example, as part of its current service delivery model, DMH contracts with a private provider for Crisis Stabilization beds for Cape Cod and the Islands. In addition, ESP services on Martha’s Vineyard and Nantucket are delivered by a private provider under contract with DMH. Also, to ensure adequate coverage for its child/adolescent mobile response, DMH has had a contract for relief coverage with a private provider.

III. The Proposed Privatization
A. The Privatization Contract
MassHealth has amended its contract with MBHP to require MBHP to expand its network of contracted ESP providers to include the Southeast Area of the state. This expansion will take effect upon approval of the State Auditor in accordance with the Privatization Law. The amendment requires MBHP to enter into contracts that comply with all Privatization Law provisions concerning quality of services, employee salaries, benefits and job opportunities for existing state workers. The term of this amendment coincides with current term of MassHealth’s contract with MBHP, which runs to June 30, 2017.

4 These service arrangements were in place prior to enactment of the Privatization Law or are for services not previously provided by state employees.
On July 6, 2015, MBHP issued a “Request for Responses” (RFR) for entities interested in providing the ESP services currently provided by DMH in its four emergency services areas. The RFR met the requirements of the Privatization Law by including provisions regarding wages, benefits, hiring, etc.

In response to the RFR, five potential providers submitted a total of twelve bids for review, as follows: Brockton – 4 bids; Cape Cod and the Islands – 2 bids; Fall River – 3 bids; and Taunton/Attleboro – 4 bids. The Service Employees International Union, Local 509, which currently represents a portion of DMH employees performing ESP work gave notice of its intent to bid on the ESP services and requested resources from DMH to assist it in this effort. DMH provided the union with the resources it requested, which comprised release time for requested employees and extensive data. The Union submitted a several page bid proposal that failed to meet minimum requirements for consideration under the RFR.

After an initial review, an MBHP evaluation committee analyzed each qualifying bid proposal. Based on the committee’s evaluation, MBHP recommended the following two organizations to provide ESP services in the Southeast region of the state:

- Community Counseling of Bristol County (CCBC) for the Brockton and Taunton/Attleboro catchment areas; and
- Boston Medical Center (BMC) for the Fall River and Cape Cod and the Islands catchment areas.

The two recommended providers meet the requirements set forth in the RFR and satisfy all Privatization Law requirements. Contracts will be executed upon completion of the review required under the Privatization Law. Copies of the proposed provider contracts for emergency services, as well as each proposed provider’s regulatory certification under § 54(7) of the Privatization Law, are set forth in Section 3: “Model Emergency Services Agreement between MBHP and Selected Providers.”

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5 The existing private network was last procured by MBHP in 2008. This RFR process was substantially similar and followed the same evaluation and selection procedures.
B. The Cost of the Proposed Privatization

MassHealth contracts with MBHP and the other MCEs to cover all behavioral health services, including ESP services, to their enrollees. MassHealth pays MCEs an actuarially sound capitated rate (fixed dollar amount per person) to provide services covered under the contract.

Under the proposed privatization, the Commonwealth, via MassHealth, would increase these capitated “per member per month” (PMPM) payments to the state’s MCEs to expand their networks to provide appropriate ESP coverage for members who access services in the Southeast Area.

DMH has worked with MassHealth and its actuary, Mercer, LLC,\(^6\) to determine the marginal increase in the PMPM necessary to include the services attributable to those individuals receiving services from the DMH Southeast Area ESPs. As a result of this analysis, it was determined that the increase in the PMPM to expand MBHP’s ESP network to the Southeast Area would be $0.42 on payments made to MBHP, which is the behavioral health carve-out vendor for the MassHealth Primary Care Clinician Plan, and $0.88 to the state’s other MCEs. Multiplying these amounts by the number of covered MassHealth members results in a total increase in the capitated rate cost per year of $3,410,673.

An additional $386,746 is also included in the calculation of the Contract Price which accounts for the increase in the Interagency Service Agreement (ISA) between DMH and MassHealth to cover the costs of the uninsured population which would be accessing private vendors following a possible privatization. This dollar amount is based on the estimated volume of these uninsured encounters and the typical costs associated with each.

Finally, an additional estimate of $1,819,752 was also included to cover the costs associated with individuals receiving future evaluations under a privatized system who are not enrolled in MCE care but are instead a part of the program’s current fee-for-service (FFS) population. This total amount was similarly calculated based on estimated volumes and typical reimbursement costs.

Two additional costs are associated with the cost of the proposed privatization, they are costs associated with unemployment benefits resulting from state employee personnel shifts ($954,158) as well as a single one-time start-up cost ($60,000) estimated by DMH as needed to ensure that the vendor chosen through the privatization would be capable of quickly and effectively ramping up their operations to cover the needed services at the required quality levels as proscribed through the RFR.

Ultimately the “Contract Performance Cost,” as labeled in Form 3 of this study, is therefore a summation of the projected increase in both the component costs associated with the contract price ($5,617,171) as well as the additional transition costs associated with the privatization ($1,014,158) for a total of $6,631,329 for the first year of the contract.

\(^6\) Mercer, LLC is an international actuarial firm that provides services to MassHealth and other state agencies.
C. DMH’s Cost to Provide the Services

In accordance with the Privatization Law, DMH has also considered its own cost to continue to provide the ESP services in the southeast, including an analysis of potential efficiencies which could serve to reduce the program’s overall cost. This analysis is set forth in Forms 2 of this submission packet.

The total estimated cost to run the ESP program in the southeast during Fiscal Year 2016 (also labeled as the ‘avoidable cost’ to the Commonwealth in Form 2) at a level which represents the program’s most efficient operation is $13,024,296.

This total cost estimate is based on three primary factors. First, the historic costs associated with running the program which were reviewed through several sources. Second, an analysis of which of these costs could be considered “avoidable” if the program is privatized (e.g., excluding certain overhead costs incurred by the Commonwealth regardless of the privatization). And third, an analysis of what costs could be saved across the program should certain program structures be adjusted to realize any efficiencies in the program’s overall operations.

This final component, known as the Management Study, built upon findings of a previous DMH internal operations review, in addition to information gathered through interviews with key program and policy leaders within the state-operated ESPs as well as suggestions provided by the SEIU.

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Total Projected Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared Program Call Center</td>
<td>$441,935</td>
<td>$644,569</td>
<td>$390,239</td>
<td>$1,476,743</td>
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<tr>
<td>On-Call and Overtime Restructuring</td>
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<td>Runaway Assistance Program</td>
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<td>Staff Realignment</td>
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<td>Revenue Recovering Maximization</td>
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<td>Distribution of Laptops</td>
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<td>$0</td>
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<tr>
<td><strong>Total Savings</strong></td>
<td><strong>$904,120</strong></td>
<td><strong>$741,727</strong></td>
<td><strong>$462,967</strong></td>
<td><strong>$2,108,816</strong></td>
</tr>
</tbody>
</table>

While a number of scenarios were examined, DMH identified the six primary feasible interventions listed in the table above that could be implemented over the next several years to yield cost savings and increase operational revenue.

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7 Madenwald, K., Massachusetts Department of Mental Health, Emergency Service Program Performance Improvement Project (April 2, 2014).
DMH estimates that the implementation of identified efficiencies would save $904,120 within the first year $2,108,816 over a full three year period.

D. Cost Comparison
DMH compared the In-House Cost Estimate from Form 2 (Fiscal Year 16 $13,024,296) with the Contract Performance Costs from Form 3 (Fiscal Year 16 $6,631,329) to determine the savings to the Commonwealth by privatization of the four DMH state-operated ESPs. DMH estimates the Commonwealth would save $6,392,967 in the first year under a privatized program. This analysis is set forth in Form 1, with detailed supporting information included in the submission packet’s supporting documentation.

The savings to the Commonwealth of this privatization is attributable to a variety of factors. It reflects the difference between the cost to DMH to provide the ESP services and the significantly reduced cost to the Commonwealth to provide the ESP services through MassHealth and its contracts with the Managed Care Entities. The MassHealth contracted ESP services benefits from efficiencies unavailable to DMH. DMH ESPs provide approximately 12,500 ESP encounters yearly across the four program sites. In contrast, MassHealth, through its contracts, provides over 124,000 similar encounters statewide. With more centralized management of all encounters, the administrative cost per encounter is substantially lower within the MassHealth program. By shifting DMH’s 12,000 encounters under the MassHealth program, the administrative cost per encounter will immediately decrease, resulting in a significant program savings.

Furthermore even after implementing efficiencies as described in the Management Study, DMH’s labor costs remain significantly higher than provider labor costs. This is true even accounting for the cost of health insurance benefits and salary requirements contained within the Privatization Law.

E. Union Engagement/SEIU-Proposed Contract Amendments and Efficiencies
On March 4, 2015, DMH, through the EOHHS Labor Relations office, notified all unions representing DMH ESP staff members of its intent to pursue the privatization of ESP services. One of the unions representing DMH’s ESP staff members, SEIU, engaged DMH in discussions related to the proposed privatization. The union had several data requests and DMH supplied the Union with requested information.

On July 6, 2015, DMH telephoned all affected unions and notified them of MBHP’s issuance of an RFR for the ESP services. On July 7, 2015 DMH memorialized this in letters to the unions. Shortly thereafter, MBHP posted the RFR on its web site. SEIU thereafter sought resources to be able to respond to the RFR and DMH provided the additionally requested resources.

DMH met multiple times with SEIU to discuss the proposed privatization, including as recently as October 16, 2015. SEIU offered various proposed programmatic efficiencies that, by the
Union’s calculations, would save DMH between $700,964 and $742,564 per year. The proposal included:

- Certain changes to “call back” and “stand-by” pay;
- A projected reduction of overtime by 2/3, achieved by filling open positions, allowing employees to receive “compensatory time” in lieu of overtime, and allowing for flexible shift scheduling;
- Eliminating a Director position; and
- Replacing two other Directors with lower-graded SEIU members.

To the extent deemed feasible, these proposed efficiencies were included as part of DMH’s Management Study. DMH does not necessarily agree with the projected savings that SEIU suggests could be achieved. Regardless, the Union’s projected savings (up to $742,564 per year) are far less than the savings expected from privatization ($6,392,967 per year).

Notwithstanding this significant gap, DMH has indicated that it will continue to meet with the Union if it wishes to offer additional proposals. Furthermore, DMH anticipates bargaining with the Union in efforts to minimize any adverse impact on staff resulting from a privatization.

In addition to the above conversations with SEIU, DMH offered to all unions representing ESP employees a plan intended to provide cash incentives to employees who would agree to stay through the date of transition to new providers. The unions, however, did not avail themselves of this opportunity.

DMH also has indicated to SEIU that it would be willing to try to place in other vacant positions – at DMH or at other agencies – any employees who might be losing a position on account of privatization. To date, SEIU has indicated that it does not wish to pursue this.

In addition, DMH held on-site sessions with its Employee Assistance Program provider to offer support to any employees who wished to avail themselves of that service.

F. Quality of Services

MBHP under the direction of MassHealth and in consultation with DMH, expends substantial resources ensuring the quality of services provided by its network of providers, and the providers themselves are expected to devote substantial resources to ensuring quality care. MBHP’s quality management plan is set forth in Section 8 of the MBHP/MassHealth contract attached as part of Section 2: “Written Statement of Services” Appendix VII.

Required activities include, but are not limited to, managing data regarding quality, developing and using evaluation tools to assess quality, reporting on quality management, maintaining quality management staff, training of staff, conducting assessments of user satisfaction, preparing annual assessment reports, conducting quality improvement projects, and a variety of other activities which actually exceeds DMH’s quality management activities.
MBHP’s ESP performance standards are applied to private providers just as they are currently applied to DMH. MBHP’s data over time demonstrates that MBHP’s contracted providers and DMH-provided ESP services perform at equivalent levels of quality. MBHP quality data is attached as part of Section 2: “Written Statement of Services” Appendix VI.

IV. Conclusion

As the documentation demonstrates, DMH’s proposal meets all of the requirements of the Commonwealth’s Privatization Law and will result in the provision of high quality ESP services to the citizens of the Southeast Area of the state at a substantial savings to the Commonwealth.