



ALASKA STATE EMPLOYEES ASSOCIATION

American Federation of State, County & Municipal Employees Local 52

Elizabeth King
Chair, API Governing Body

April 13, 2020

Re: WICHE Report
Alaska Psychiatric Institute

Dear Chairperson King and Members of the Governing Body:

The purpose of this letter is to respond to the Western Interstate Commission for Higher Education “API Privatization Feasibility Study” (“WICHE Report”) dated March 2020. The Alaska State Employees Association / AFSCME Local 52 (“ASEA”) has several serious concerns regarding the conclusions and findings in the WICHE Report that call into question the validity of the findings and any future reliance on the document as decision makers consider options for API.

ASEA is uniquely aware of the issues at API. Its employees are on the front lines, staffing jobs that require around-the-clock services to some of Alaska’s most vulnerable citizens. Some ASEA employees at API have worked at API for over fifteen years, experiencing firsthand the struggles facing every administration (and the federal government) during this time period. The WICHE Report acknowledges these challenges, stating that such challenges led API to question “whether changes in the hospital’s operational governance and structure would lead to improved patient care, staff recruitment, retention, and financial performance” and prompted the WICHE Report¹

WICHE may call its Report a feasibility study, but it does not provide the information required by the ASEA Collective Bargaining Agreement covering the General Government Bargaining Unit (“CBA”),² or information you might need to decide the best path forward for API. There are three different labor contracts that govern employees at API.³ Most employees are covered by the CBA referenced above. Article 13 of that CBA states, in part, that when contracting out services, the State of Alaska is required to conduct a feasibility study that “shall include all costs associated with contracting out the work in question, including, but not limited to, wages, benefits, administrative

¹ WICHE Report at 15.

² See CBA at 28-29 (Article 13 – Contracting Out).
<https://doa.alaska.gov/dop/fileadmin/LaborRelations/pdf/contracts/GGU20192022Final.pdf>.

³ The CBAs can be reviewed by visiting
<https://doa.alaska.gov/dop/LaborRelations/unionContracts/>.



costs, agency overhead, program supervision, and audits.”⁴ That type of feasibility study is required because the CBA mandates that prior to any final decision to contract out employees, the ASEA is entitled to submit an “alternate plan” that addresses the “potential costs and benefits” of a decision to contract out services. On March 19, 2020, Benthe Mertl-Posthumus, a Labor Relations Analyst for the State, emailed ASEA and others about the WICHE Report, stating “[t]his study far exceeds the feasibility study requirements when considering contracting out privatization agreed to in the GGU and SU bargaining agreements and the [c]ost efficiency study required in the LTC agreement...”⁵ Ms. Mertl-Posthumus is wrong. The ASEA cannot adequately respond to the WICHE Report because it does not provide the information required in the CBA. As such, the ASEA will be denied the rights it is entitled to under the CBA if the State relies on the feasibility study in reaching any decision to contract out services or privatize API.

The WICHE Report does not address wages/salaries in a manner that allows the ASEA to propose any alternative plan. WICHE describes the wages under the CBA at various times under the report. For example, at page 98, WICHE describes the wages effective July 1, 2020. WICHE states that a partial privatization of the communication center will save \$20,137 because a contractor “would not be limited by the State of Alaska’s state employee salary structure.”⁶ A partial privatization of the environmental services would save \$57,504, according to WICHE, with no explanation regarding how WICHE reached that number. But the WICHE Report estimates that under a private sector model, salaries at API will be 20% higher than the current AP salaries.

Even more significant for purposes of this governing body, the WICHE Report misrepresents the cost of the state model for purposes of making the privatization model look more cost effective. WICHE attributes \$6,025,022 in certain “all other costs” to the state-run model. WICHE breaks down into \$5,075,131 in payments for consulting and management of API and \$949,891 for general service expenses. As a result, when comparing the state and “for profit” models, WICHE concludes that the API “for profit” model will result in a \$1,202,766 savings in state general fund expenditures.

The problem with these conclusions, is that including the \$5,075,131 for management and consulting fees in the state-run model makes no sense. API has operated for years as a standalone hospital that did not need or pay for outside management and consulting and will likely do so again in the very near future. The only time API has ever needed outside management and consulting that required expenditures of this magnitude has been during the last year, after state budget cuts that crippled the hospital’s ability to function. Presuming the installation of competent management, expenditures like this will dwindle downward ultimately to nothing. Indeed, the State of Alaska just reduced the contract for the management of API to \$200,000 per month. According to Department of Health and Social Services, the State of Alaska signed a new contract with Wellpath Recovery Solutions with a term of April 1, 2020 through June 30, 2020 for \$200,000 per month for certain non-union jobs and for regulatory, licensing and compliance matters related to the Center for Medicare and Medicaid Services, and other regulatory bodies. Projecting this cost over a year results in a total annual cost of \$2.4 million, a significant decrease from the \$5,075,131 identified by WICHE.

⁴ ASEA GGU CBA at Article 13 – Contracting Out, 13.01 Feasibility Studies, at 13.01.B. The ASEA GGU CBA is publicly available at <https://doa.alaska.gov/dop/fileadmin/LaborRelations/pdf/contracts/GGU20192022Final.pdf>.

⁵ Exhibit A, email from Benthe Mertl-Posthumus, March 19, 2020.

⁶ WICHE Report at 10.



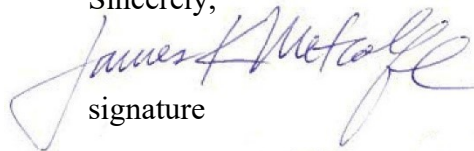
Given the discrepancy between the projection by WICHE and the actual current cost, the dramatic trend downward from the original cost of \$1 million per month for Wellpath's services, and the resulting likelihood this cost will dwindle to nothing by the end of the year, outside management and consulting costs should never have been included in the state model. Elimination of this cost from the state model reveals the state model would cost almost \$3.875 million less than the "for profit" models on an annual basis. Even assuming the current actual cost of \$2.4 million was inserted in place of WICHE's projection, the state model would still cost \$1.4-1.5 million less than the "for profit" models. Regardless, the misrepresentation in the WICHE Report should cause this body and anyone who reviews the Report to reject the cost differences between the private and state models.

Further, the WICHE Report also only provides an analysis for the first year of running API. A true feasibility studies needs to compare the long-term costs of running API under each of the proposed models. Without projection of long-term costs, no reasoned analysis of any of the proposed options can be done. Without this information, nor can ASEA respond as it is permitted to do under Article 13 of the collective bargaining agreement with the State.

The WICHE Report is not a feasibility study. In January 2017, the Public Consulting Group ("PCG") released its feasibility study report regarding whether the privatization of API could improve service delivery at the hospital while at the same time generating costs savings to the State without reducing the quality of care. The PCG feasibility study is available online, and outlines the specific references to the requirements in the CBA.

The PCG study concluded that, to maintain budget neutrality, privatization could not occur without cuts to staffing that would compromise patient care. The original contract with Wellpath contemplated this exact approach. It proposed relatively equal costs to that incurred by the State in the first year of the contract at the expense of 70-80 staff positions. The WICHE Report egregiously misrepresents the cost of the state model in an effort to establish cost savings to justify privatization, ASEA urges the Board to review both studies and, if it does, the conclusion will be obvious. API has made significant strides in the last year but still has work to do. With competent and stable management, API can complete this process as a state run facility while at the same eliminating the need for outside management and consulting services. ASEA urges the Board to reject privatization both for the sake of the patients as well as the long-term costs to the State.

Sincerely,


signature

