

EVALUATION & COST-BENEFIT ANALYSIS TO OUTSOURCE FOOD AND JANITORIAL SERVICES

(FY2010 Appropriation Bill - Public Act 131 of 2009)

March 1, 2010

Section 608: By March 1, 2010, the department shall update the figures contained in the January 1, 2009 report and, in consultation with the department of management and budget, shall establish and implement a bid process to identify 1 or more private contractors to provide food service and custodial services or otherwise implement opportunities to reduce these costs at those state hospitals identified in the updated report as capable of generating savings through the outsourcing of such services.

*Michigan Department
of Community Health*



Jennifer M. Granholm, Governor
Janet Olszewski, Director

**Michigan Department of Community Health
FY10 Appropriations Act
PA 131 of 2009
Section 608 Boilerplate Report**

Update

As required by Section 608, DCH has updated the figures contained in the report submitted in 2009. The methodology used for this update was as follows:

- Hospital and centers were re-surveyed to report FY09 information staffing and costs. For the janitorial/custodial update, administrative staff space was identified and the associated janitorial staff in full time equivalent positions. Additionally, the Center for Forensic Psychiatry was added to the report.
- The contractual costs for food service were increased by 3% which was in line with the cost increase for food for state operated facilities. The Reuther food service contract, which was used for the comparative base was adjusted for Hawthorn because the contract costs are higher for smaller volume operations. The Center for Forensic Psychiatry was excluded as they currently receive food service through the Department of Corrections.
- The comparisons for janitorial services were completed for administrative office space only and the state contract for janitorial services in state office buildings was used for the comparison.

The change to limit the analysis for Janitorial and Custodial services to only the administrative areas of the hospitals and centers was based on the following:

- The safety of both patients and the contractual workers and corresponding liability. Janitorial staff work directly in residential buildings and have regular, close contact with patients including medical and human waste.
- Substantial initial and ongoing training would be required for contractual staff who would work in environments where patients reside. Training would include health, safety, infection control and HIPAA confidentiality requirements.
- The effect of the contractual arrangement on patient workers. Most facilities pay patients for janitorial work to assist in their habilitation/rehabilitation and programming needs. A portion of existing janitorial state staff time is used to work with and train patients.
- The daily interaction of state staff with patients. Janitorial staff work in close contact with patients in the residential units and play an important role in the treatment of patients that would not exist under a contractual relationship.

Survey Results

Food Service

In total, Caro Center, Kalamazoo Regional Psychiatric Hospital and Hawthorn Center reduced food service costs in FY09 by over \$400,000 in comparison to FY08 expenditures. The FY09 hospital/center reports identified an expenditure of \$3.4 Million in comparison to an estimated contractual food service cost of \$3.5 Million. Correspondingly, DCH does not intend to outsource food services at this time.

Food Service Summary					
	FY08 State Expenditures	FY09 State Expenditures	Difference From FY08	Est. FY09 Contractual Cost	Contractual and Direct Operated Comparison
Caro	\$1,321,653	\$1,310,567	(\$11,086)	\$1,346,850	\$36,283
Kalamazoo	\$1,473,198	\$1,357,915	(\$126,340)	\$1,418,682	\$71,832
Hawthorn	\$978,064	\$703,824	(\$274,240)	\$704,633	\$809
Reuther			currently contractually provided		
Forensic Center			currently contractually provided		
Total	\$3,772,915	\$3,372,306	(\$400,609)	\$3,470,165	\$97,858

Janitorial and Custodial Services

DCH has included Forensic Center and focused the updated survey on administrative office space only in that contracting these services in patient areas presents challenges as outlined above. Because of the change in methodology, no comparison to FY08 costs was made.

Janitorial Summary Administrative Space			
	FY09 State Expenditures	Est. FY09 Contractual Cost	Contractual and Direct Operated Comparison
Caro	\$77,759	\$34,470	(\$43,289)
Kalamazoo	\$214,013	\$49,222	(\$164,791)
Hawthorn	\$69,385	\$45,318	(\$24,067)
Reuther	\$137,372	\$18,641	(\$118,731)
Forensic Center	\$138,586	\$66,457	(\$72,129)
Total	\$637,115	\$214,108	(\$423,007)

As noted in the table above, in total, hospitals and centers report about 10 full time equivalent positions assigned to administrative areas. Using the cost per square foot contained in the state's contract for janitorial services in state office buildings, costs would be less under a contractual relationship. However, DCH will first pursue internal, hospital specific opportunities to reduce the cost of these services. Should these not be successful, DCH will initiate the process for outsourcing janitorial services for administrative space.

The attachment provides additional information.

Evaluation & Cost-Benefit Analysis to Outsource Food Services

	ORIGINAL FOOD SERVICE SURVEY / REPORT				
	Mt. Pleasant	Caro	Kalamazoo	Hawthorn	Total
STATE-OPERATED:					
Food Cost/Day	\$ 5.66	\$ 6.99	\$ 4.68	\$ 9.39	
Average Census	158	158	160	83	
Annual Food Cost	\$ 326,412	\$ 403,113	\$ 273,312	\$ 284,470	\$ 1,287,307
Food Service FTEs	16.0	15.0	18.6	11.0	60.6
Average Cost per FTE	\$ 62,350	\$ 61,236	\$ 64,510	\$ 63,054	
Annual Staff Cost	\$ 997,600	\$ 918,540	\$ 1,199,886	\$ 693,594	\$ 3,809,620
Total Annual Cost - State Operated	\$ 1,324,012	\$ 1,321,653	\$ 1,473,198	\$ 978,064	\$ 5,096,927

	CONTRACTUAL:				
Estimated Contract Price per Day (Food & Labor)	\$ 24.22	\$ 23.93	\$ 23.13	\$ 29.32	
Average Census	158	158	160	83	
Total Annual Cost - Contractual	\$ 1,396,767	\$ 1,380,043	\$ 1,350,792	\$ 888,249	\$ 5,015,851
Estimated Savings - Contractual Services	\$ (72,755)	\$ (58,390)	\$ 122,406	\$ 89,815	\$ 81,076
Percent Savings	-5.50%	-4.42%	8.31%	9.18%	1.59%

	UPDATED FOOD SERVICE SURVEY / REPORT				
	Mt. Pleasant	Caro	Kalamazoo	Hawthorn	Total
CLOSED					
	\$ 7.12	\$ 4.87	\$ 13.49		
	150	158	55		
	\$ 390,760	\$ 281,374	\$ 272,417	\$ 944,551	
	15.4	17.2	6.5	39.1	
	\$ 59,728	\$ 62,590	\$ 66,370		
	\$ 919,807	\$ 1,076,541	\$ 431,407	\$ 2,427,755	
	\$ 1,310,567	\$ 1,357,915	\$ 703,824	\$ 3,372,306	

	\$ 24.60	\$ 24.60	\$ 35.10		
	150	158	55		
	\$ 1,346,850	\$ 1,418,682	\$ 704,633	\$ 3,470,164	
	\$ (36,283)	\$ (60,767)	\$ (809)	\$ (97,858)	
	-2.77%	-4.47%	-0.11%	-2.90%	

Evaluation & Cost-Benefit Analysis to Outsource Janitorial Services

	ORIGINAL JANITORIAL SERVICE SURVEY / REPORT (FOR THE ENTIRE FACILITY)						UPDATED JANITORIAL SERVICE SURVEY / REPORT for ADMINISTRATIVE OFFICE SPACE ONLY						
	Mt. Pleasant	Caro	Kalamazoo	Hawthorn	Walter Reuther	Total	Mt. Pleasant	Caro	Kalamazoo	Hawthorn	Walter Reuther	Forensic Center	Total
STATE-OPERATED:							<i>was not incl in orig survey</i>						
Current State FTEs	29.0	27.0	29.0	8.0	24.0	117.0		1.3	3.4	1.1	2.3	2.3	10.4
Average Cost per FTE	\$ 65,453	\$ 65,254	\$ 65,169	\$ 66,479	\$ 66,722			\$ 59,814	\$ 62,945	\$ 63,077	\$ 61,054	\$ 60,255	
Estimated Total Annual Cost	\$ 1,898,137	\$ 1,761,858	\$ 1,889,901	\$ 531,832	\$ 1,601,328	\$ 7,683,056		\$ 77,759	\$ 214,013	\$ 69,385	\$ 137,372	\$ 138,586	\$ 637,115
Average Cost/Sq Ft.	\$ 4.13	\$ 3.44	\$ 5.92	\$ 3.74	\$ 8.24			\$ 1.81	\$ 3.49	\$ 1.23	\$ 5.92	\$ 1.68	
CONTRACTUAL:													
Total Square Footage to be Cleaned	460,025	511,511	319,154	142,117	194,340			42,900	61,260	56,401	23,200	82,710	
Average Cost/Square Foot	4.3	4.3	4.3	4.3	4.3		<i>(Peckam contract)</i>	0.8035	0.8035	0.8035	0.8035	0.8035	
Annual Total Contractual Cost	\$ 1,978,108	\$ 2,199,497	\$ 1,372,362	\$ 611,103	\$ 835,662	\$ 6,996,732		\$ 34,470	\$ 49,222	\$ 45,318	\$ 18,641	\$ 66,457	\$ 214,109
Estimated Savings - Contractual Services	\$ (79,971)	\$ (437,639)	\$ 517,539	\$ (79,271)	\$ 765,666	\$ 686,324		\$ 43,289	\$ 164,791	\$ 24,067	\$ 118,731	\$ 72,129	\$ 423,006
Percent Savings	-4.21%	-24.84%	27.38%	-14.91%	47.81%	8.93%		55.67%	77.00%	34.69%	86.43%	52.05%	66.39%