CASE MODEL

THE DOWNHOME MENTAL HEALTH CENTER: POISED FOR PRIVATIZATION

Strong rumors about privatization of the Center abound. The Administrator sees this as a potentially good transition and decides to prepare the Center internally for the inevitable Request for Proposals (RFPs) that will be presented to the private sector.

Therefore, the Administrator establishes the following goals:

1. Maintain quality and scope of service to existing clients of the Center.
2. Maintain jobs and benefits for employees of the Center.
3. Extend Center mental health services to currently under-served classes of clients (e.g., Latino migrant population, rural shut-ins, etc).

She also requires the following financial analysis from her staff:

1. Translate governmental accounting:
    a. consider the impact of privatization on current revenues; and
    b. consider the impact of privatization on current expenditures.
2. Improve profitability:
    a. consider the impact privatization might have on increasing revenues; and
    b. consider the impact privatization might have on decreasing expenditures.

STRATEGIES AND SOLUTIONS

The Administrator sets out her long-term strategies for the Center:

1. Ensure strong financial standing of bidders. Although this is outside the Administrator's authority, she wants to be prepared to give input. Turnover is traumatic and Administrator wants to get it right the first time. The state may require "bidders" to be intra-state. She knows some of the local mental health organizations have financial problems. Startup or transitional reserves are an issue.
2. Ensure strong Medicaid experience of the bidders. The Center is not profit motivated and profitability under Medicaid takes existing expertise.
3. Ensure strong managerial track record of bidders in the mental health field. The bulk of the initial revenues for the bidder will be Medicaid at 84%. The county will probably keep the case management aspect of the Center intact for quality assurance. The successful bidder should provide the bulk of the currently out-sourced services, for which the Center gets a 16% case management fee. However, the current out patient revenue of the Center, not subject to the 16% fee by the Center, will also be subject to the 16% fee for the bidder.
4. Make the Center attractive, but realistic, for bidders by showing potential sources of increased revenues and potential cost-cutting strategies.

PROJECT

The Administrator and her staff gather information to put together an RFP, an auxiliary "help" list for bidders, and a form/process to evaluate bidders.

STATEMENT OF NET ASSETS

The Center does not have a significant amount of assets or even capital asset needs. The computers may or may not be part of the sale.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Last year's "charge for services" consists of two lines: services rendered, for $2.6 million, and case management for $0.6 million. Case management fees are 16% of the Medicaid out-sourced reimbursement the Center monitored. Internal records show Medicaid totaled $1.8 million of the services rendered.

The total of out-patient revenues from last year, translated into bidder revenue is $2.3 million [($1.8 million Medicaid revenue x 84% = $1.5 million) plus ($0.8 million non-Medicaid sources)]. The 84% reflects the expected 16% fee the county will take for ongoing case management of previously non-fee Center (out-patient) revenue.

The Administrator estimates the bidder can perform in house 90%, of the currently out-sourced client services. Last year's revenue, from performed services the Center out-sourced, is $2.8 million [($0.6 million/16%) x 90%].

The operating expenses section must be:

1. Reduced:
    a. By the salaries of the case managers: $180G [6 x $30G/y]
2. Increased:
    a. by the equivalent cost of county-provided rent. Space to accommodate the previously out-sourced client services must be added on, and the current space for the six case managers can be eliminated;
    b. by the equivalent cost of county-provided janitorial service;
    c. by the equivalent cost of county-provided printing;
    d. by the equivalent cost of county-provided utilities; and
    e. by the equivalent of county-provided technological support.

Expense	Estimated Current Amt (in $$)	By	Space/Volume Multiplier	Expected Amt (in $$)
Rent	1,475	Realtor	2.1	3,098
Janitorial	650/mon	3 estimates	2.1	1,366
Printing	1,200	Kinko's	2.6	3,128
Electric	625	By SF-county	2.1	1,391
Water	250	By SF-county	2.1	525
Rep/Main	3,180	By SF-county	2.1	6,678
Tech Support	22,600	County tech	1.0	22,600

The non-operating revenues (expenses section) must be:

1. Decreased:
   a. by interest expense — this expense is irrelevant to the bidder; and
   b. by depreciation expense — most of this is for the building. The Administrator assumes the county will charge a fair market rent if the bidder elects to stay in this location. The Administrator deems the remainder of the depreciation expense, for a few copiers and computers, to be immaterial.

Capital contributions and Transfers out are both irrelevant to the bidder.

STATEMENT OF CASH FLOWS

The Administrator feels the bidders will concentrate on the Statement of Revenues, Expenses and Changes in Net Assets and decides to forego proactive translation of the Statement of Cash Flows into bidder terms. The only item really affected is the interest paid, described above.

INCREASING REVENUES

The Administrator knows the local mental health care providers well. She does not feel the bidder would lose current non-Medicaid clients to these other providers. She feels the Center, after a bidder's upgrading, would attract additional non-Medicaid patients, pulled out of the existing providers and an increased awareness secondary to bidder's expectedly marketing.

In the past, the Center could not engage in HMO contracts because of logical county prohibition. Any bidder that can turn a profit at an 84% level of Medicaid reimbursement could probably afford to take on these potential contracts.

The Administrator feels there will be cost savings by increasing the efficiency of internal processes.

DECREASING EXPENDITURES

Because of the cost of technology, the Center uses manual systems for appointments, for billing private payors, and for performing and collecting transcription into medical records. Billing for Medicaid, Medicare and Blue Cross/Blue Shield uses their programs because they are free, but this results in a fragmented billing system. The Administrator feels any solid bidder would already have appropriate practice management and billing software.

SUMMARY

Despite multiple constraints, governmental mental health administrators can make a difference in how the facility is run, and thus more positively affect their community. A facility does not have to face privatization to improve in multiple parameters.

Governmental accounting focuses on stewardship of public funds. Public accounting focuses on performance. For internal purposes, the savvy administrator utilizes the best of both worlds.

KEY ISSUES:

1) Can the Administrator achieve all her goals?
2) How might these goals be achieved?
3) What strategies might be used?
4) What is the financial statement(s) impact on the Center?
5) Will the RFP meet the Administrator's near- and long-term needs?