



A Case for Outsourcing Non-Core Hospital Services

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NYC HHC: The Largest Municipal Healthcare Organization in the Country

"To extend equally to all New Yorkers, regardless of their ability to pay, comprehensive health services of the highest quality in an atmosphere of humane care, dignity and respect;

To promote and protect, as both innovator and advocate, the health, welfare and safety of the people of the City of New York;

To join with other health workers and with communities in a partnership which will enable each of our institutions to promote and protect health in its fullest sense -- the total physical, mental and social well-being of the people."

Overview:

- \$6.7 billion integrated healthcare delivery system
- 385,000 member health plan, MetroPlus
- Serves 1.3 million New Yorkers every year (450,000+ are uninsured)
- HHC provides medical, mental health and substance abuse services through its:
 - 11 acute care hospitals
 - 4 skilled nursing facilities
 - 6 diagnostic and treatment centers
 - 80+ community based clinics.
- HHC Health and Home Care provides in-home services for New Yorkers.
- 2008 recipient of the National Quality Forum and The Joint Commission's John M. Eisenberg Award for Innovation in Patient Safety and Quality

Statistics:

- Beds: 7,568
- Clinic Visits: 5,139,742
- ER Visits: 1,148,255
- Births: 22,601

Current State

1990's

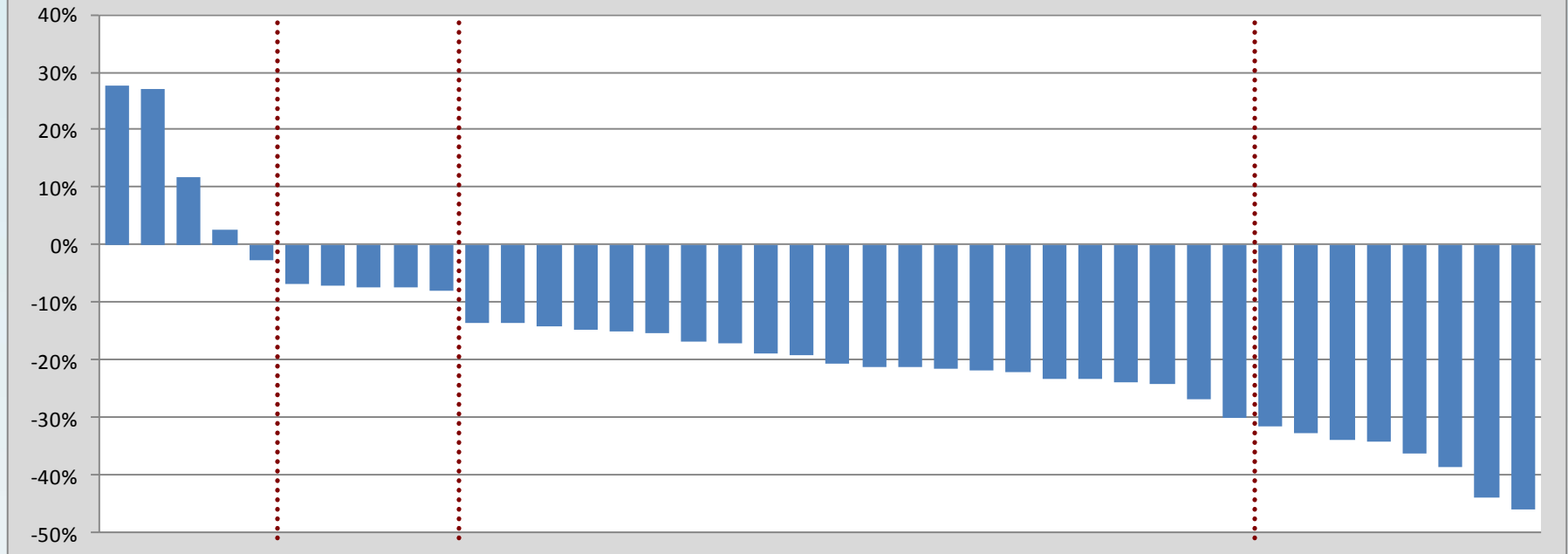
- Financials were substantially the black for 6 years

2000

- Financials projected a \$1.2B deficit
- Major reasons for deficit:
 - cut in the types of procedures reimbursed
 - Medicare and Medicaid reimbursement cut
 - substantial increase in uninsured patients
 - substantial increase in labor and supply expenditures

Medicare Breakeven Strategies

2009 Inpatient Medicare Margins



Source: HMC Data

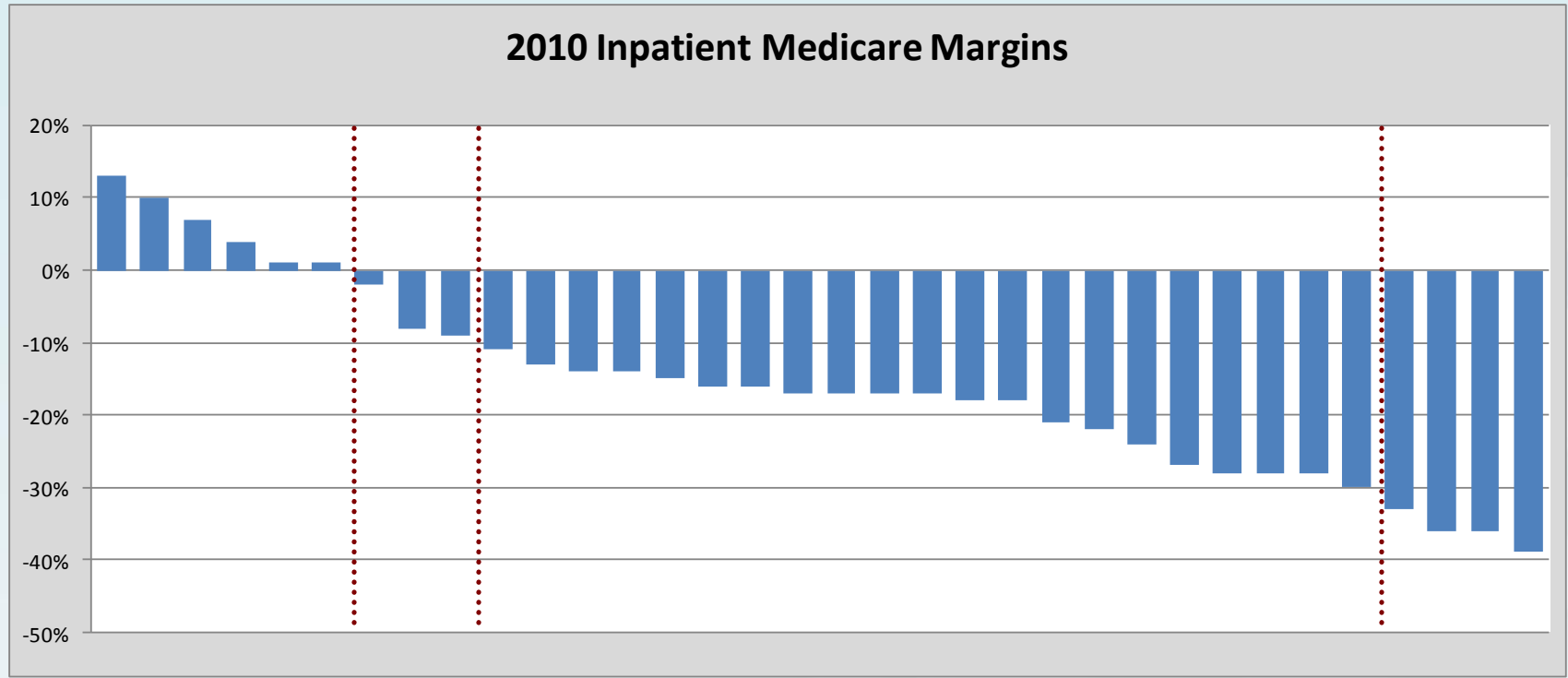
- ❖ Only 12% of hospitals were profitable or near Medicare BEP
- ❖ Majority ranged between -10% and -30%

Has anything changed? ➡

Slide from John Whittlesey's (Principal The Healthcare Management Council, Inc.) Spring 2011 IDN Summit presentation "Leveraging the New Landscape of Payment Reform - Medicare Breakeven Strategies"

Spring 2011

Medicare Breakeven Strategies



Source: HMC Data

- ❖ 20% of hospitals were profitable or near Medicare BEP
- ❖ 74% improved Medicare margins; 19% got worse; 7% no change
- ❖ 4 facilities moved from negative to positive margins

Slide from John Whittlesey's (Principal The Healthcare Management Council, Inc.) Spring 2011 IDN Summit presentation "Leveraging the New Landscape of Payment Reform - Medicare Breakeven Strategies"

Spring 2011

Grappling with the Magnitude of the Problem

\$1,000,000

At a Million dollars
the questions and trade-offs are important but focused

\$1,000,000,000

At a Billion dollars
the questions and trade-offs involve thousands of NYC residents and
entire communities

The imperative for change was very clear for everyone

NYC HHC's Response

“The Road Ahead”

- Cut and address the \$1.2B deficit
- 39 restructuring initiatives

Outsource initiatives (Non-Core Services)

- Dietary Operations
- Waste Management
- Supply Chain Management
- Laundry Operation
- Plant and Maintenance
- Environmental Service Operations
- Biomedical Engineering

Dietary

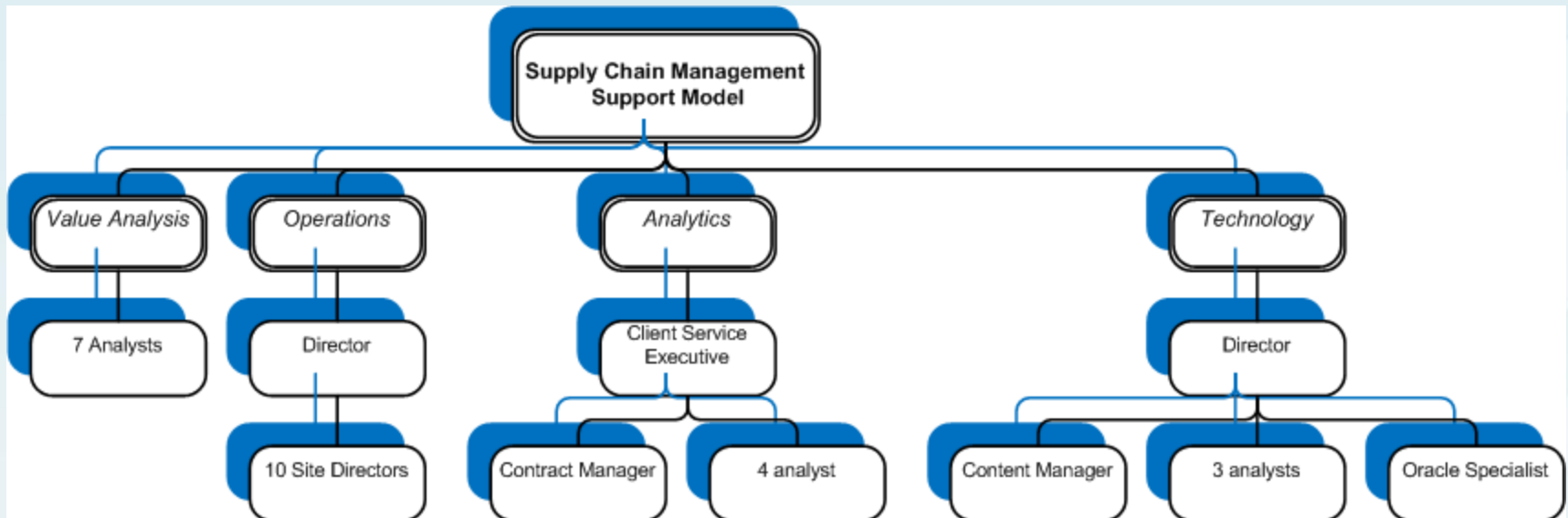
- *Scope:* Centralize and outsource cook/chill plant management and fiscal operations
- *Statistics:*
 - 40K square foot plant
 - 19K meals per day
 - 21 day menu cycle for all facilities
 - 99% compliant with New York City dietary regulations
- *Current State:* implemented for 7 years
- *Current Budget:* \$92M
- *Average Annual Savings:* \$5M
- *Corporate-wide* improvement in patient satisfaction in all years
- *Cost Controls:*
 - reduction of labor force from 1400 FTE to 980 FTE
 - continuous training of management and union personnel
 - IT systems in cook/chill plant and facilities monitor food costs
 - line item cost reporting
- Ability to quickly adapt to regulatory changes
- Emergency response and planning is first rate

Waste Management

- *Scope:* Centralize and outsource management and waste collection
- *Current State:* implemented for 2 years
- *Term of contract:* 6 years
- *Average Annual Savings:* \$900K
- *Annual Spend:* \$7.2M
- *Other:*
 - guaranteed annual budget in 4 wastes streams
 - fix budget based on utilization in all other waste streams
 - equipment cost are vendor's responsibility
 - right-sizing of bin location, picks and pulls
 - continuous training of management and union personnel
 - improved regulatory compliance

Supply Chain Management

Scope:



Current State: Implemented

Term: 5 years

Savings: \$8.5M /year (current), \$14M /year (target)

Laundry

- *Scope:* Close Brooklyn Central Laundry and outsource management and staff
- *Current State:* implementing
- *Term:* 9 years
- *Savings:* \$7.5M/year
- *Statistics:* 17M lbs /year
- Contractual guaranteed budgets in labor, supplies and vendor fees
- Equipment costs and repairs are vendor responsibility
- Improvement in management of labor force and cost effective staffing plan
- *Other:*
 - reduction in lost linens
 - IT systems to track and monitor costs
 - improved patient safety and care
 - standardization of supplies
 - standardization of work flows and procedures

Outsourcing Initiatives Currently in Progress

- Plant Maintenance
 - *Scope:* Outsource management
 - *Term:* 9 years
 - *Projected Savings:* \$7.5M /year
- Environmental Services
 - *Scope:* Outsource management
 - *Term:* 9 years
 - *Projected Savings:* \$7.5M /year
- Biomedical Engineering
 - *Scope:* Outsource management
 - *Term:* 9 years
 - *Projected Savings:* \$8M

Why Outsource Non-Core Services

- Inability to consistently invest resources to fund non-core service departments
- Lack of expertise to maintain cost effectiveness and efficiency of operation
- Inability to invest in IT upgrades
- Little investment in training of staff
- Little investment in capital equipment
- Inability to manage increasing labor costs
- Inability to manage increasing supply costs

Advantages to Outsource Non-Core Services

- Cost control over long term
- Contract terms that transfer increasing non-core services cost to the vendor
- Guarantee not to exceed budget in labor, OT, supplies, equipment and vendor fees
- Sustained improvement in patient care and patient safety
- Assurance of regulatory compliance and cost effectiveness implementing new regulations
- Sustained patient satisfaction

Contract Implementation Planning

- Planning meetings
- Use of written checklists
- Use of share sites
- C-suite involvement
- Implementation teams accountable for maintaining implementation schedule
- On-site contract manager
- Centralized responsibility for vendor payment
- Contract performance indicators
- Independent vendor assessments
- Utilize regular web conferences to identify issues in real time

“The Road Ahead”

Financial stability, improved operations and better healthcare can be achieved through outsourcing non-core services