

# PUBLIC HEALTH CARE UNDER THE KNIFE

## *DC 37's Response to "Restructuring HHC: The Road Ahead"*



District Council **37** AFSCME  
AFL-CIO

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## ***DC 37's Response to "Restructuring HHC: The Road Ahead"***

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# *Public Health Under the Knife:* **DC 37 Responds to the New York City Health and Hospital Corporation's Restructuring Plan**

## **Introduction**

The Health and Hospital Corp.'s restructuring plan, released in May, takes a slash-and-burn approach to choosing changes to guarantee the fiscal soundness of New York City's public health-care system.

***Boiled down to its essence, this faulty approach is based on:***

- Conflicts of interest,
- Unsubstantiated cost-efficiency analyses,
- Ideologically driven contracting out, and
- Reckless downsizing

The union's analysis found that the process of developing the plan was fundamentally flawed by relying on Deloitte, LLP, a management consultant with serious conflicts of interest and without broad experience studying public hospital systems. We question whether this was the appropriate firm to recommend the restructuring plan.

Deloitte has direct client relationships with Sodexo Corp. and Angelica Linen Services — companies that would benefit from additional contracting out of HHC services — rendering the plan's recommendations in these areas highly suspect.

While the economy shrinks and jobs disappear, HHC paid Deloitte almost \$4 million for a blueprint for the future that fails to consider seriously the healthcare concerns of the community and working people. The union is troubled by the potential impact of the plan on the workers, their communities and the city's economy.

District Council 37, AFSCME, which represents more than 18,000 workers at HHC, is concerned that carrying out the plan could undermine the system's ability meet its mandate to provide high-quality health care to all regardless of ability to pay.

The plan would eliminate 1,200 jobs through attrition and lay off hundreds more this year and eliminate a shocking 3,700 full-time equivalent employees by fiscal year 2014 through attrition and layoffs. HHC has already put skilled trades workers and laborers on the chopping block and revived privatization plans for Brooklyn Central Laundry.

The plan heavily targets certain types of jobs: entry-level jobs, lower paid jobs, unskilled jobs, support staff jobs, jobs that start a worker on a career ladder in health care – jobs that are predominantly represented by DC 37.

DC 37 locals include 45 percent of the workers in the hospital system. Members work in HHC's 11 hospitals, four skilled nursing facilities, six diagnostic treatment clinics, Brooklyn Central Laundry and 80 primary care clinics in the five boroughs. The employees generally live in the communities where they work, and they often use HHC as their health-care provider.

DC 37 members working in HHC facilities are skeptical – and feel betrayed. As dedicated health-care workers, they and their union have consistently fought for the federal, state and local funding that keeps the public-hospital system running. Along with patients who stand to receive poorer services, the hospital system's frontline staff will feel the pain of the restructuring as they lose their jobs and contend with downsizing and overwork.

Relying on a cost-efficiency analysis, Deloitte's restructuring report places an exaggerated emphasis on personnel costs. The methodology provides management with a rationale to make deep cuts in headcount that will ultimately jeopardize patient care. The press release announcing the plan focused on the "rising pension and healthcare costs" of HHC employees. Similarly, HHC President Alan Aviles referred to "skyrocketing fringe benefit costs" in his speech about the plan.

In public statements and in the restructuring report, the administration does not use the same alarmist language to describe the long-term decline in government assistance and the growing need for services. But the ongoing declines in funding and health care insurance coverage are the real culprits here.

"Restructuring HHC: The Road Ahead," does address serious challenges facing the city's public health-care system and compellingly lays out its fiscal troubles.

- Over the last three years, HHC's annual Medicaid reimbursement from New York State has fallen by \$240 million, and HHC expects \$100 million in annual cuts in upcoming years.
- The number of HHC patients without health insurance increased by 14 percent, from 396,000 to 453,000 between 2006 and 2009.
- Approximately 500,000 immigrants who reside in New York City without legal documentation will continue to depend disproportionately on HHC for their health care. They are not covered by the federal health care reform legislation.

In light of this funding crisis, any restructuring plan must address ways to boost revenue dramatically. Relying overwhelmingly on contracting out and cutting personnel instead, will significantly harm patient services. Even the \$200 million in FMAP funds expected under the new federal jobs bill will not go far enough toward closing HHC's \$1.3 billion budget gap.

Rising patient care costs, uncompensated care and reduced reimbursements are major challenges in HHC's budget deficit. The focus on personnel expenses skews the overall picture painted by the report and gives the false impression that the crisis is largely the result of employee benefit and pension costs.

DC 37 and other municipal unions recognize the fiscal challenges facing HHC and have made clear their willingness to be partners in change. HHC rebuffed our offer to help create a restructuring plan. In the process, the administration allowed for only superficial labor input, essentially locking out the representatives of frontline workers.

Given that designing the plan was contracted out to a consultant with limited knowledge of public hospital systems, it not surprising that the formulaic result calls for laying off hundreds of trades workers and extensive contracting out of services, such as the Brooklyn Central Laundry.

Decimating HHC staff and increasing contracting out would undermine the remarkable turnaround HHC has achieved in recent years in the quality of care it provides the city's most needy residents. This ideologically driven restructuring would thus jeopardize the high ratings that HHC has recently received from accreditation, government and other reputable health-care monitoring agencies in recent years.

## Conflict of Interest

Deloitte — whose recommendations include extensive contracting out — has direct client relationships with Sodexo Corp. and Angelica Linen Services, companies that already have contracts with HHC and which would stand to benefit much more if HHC contracts out additional services. Deloitte's relationship with Sodexo raises ethical and practical questions about whether this consultant should have been selected to do HHC's restructuring study.

Sodexo's track record exemplifies the troubles associated with contracting out. Surveys of HHC patients consistently give Sodexo poor marks for its food service. Equally disturbing is Sodexo's behavior elsewhere. In July, New York State Attorney General Andrew Cuomo forced Sodexo to agree to a record \$20 million fine for violating the False Claims Act with overcharges to the SUNY system and 21 public schools in the state. We believe HHC should reexamine its current contract with Sodexo and consider bringing HHC's food services back in house.

The portion of laundry services currently provided by Angelica Textile Services is similarly subject to quality control concerns. After years of spotty service, lack of inventory control and delivery delays under Angelica, all but three HHC hospitals eagerly went back to the in-house services provided by HHC's Brooklyn Central Laundry. Those facilities now enjoy better laundry quality and delivery time.

*Further privatization of these services, particularly in a manner that may not be "at arms length," would not constitute prudent use of public dollars.*

## Insufficient Input from the Community and Frontline Staff

The HHC administration failed to solicit meaningful input from the community and the unions for the restructuring plan.

HHC admits that only one-fifth of the workforce responded to surveys. The few meetings with labor representatives were essentially one-sided updates from HHC, with no intention of obtaining meaningful input. The report did not incorporate the municipal unions' written recommendations, and HHC did not allow labor and community representatives to serve on the Restructuring Steering Committee.

HHC's failure to accept input from the community and unions was matched by its willingness to give Deloitte the major responsibility of creating the public health system's blueprint for change. It is unsurprising that the resulting plan reflects a corporate ethos that is inappropriate for non-profit public-service institutions.

## ***Deeply Flawed Cost-efficiency Analysis***

The consultant's analysis relies on a cost-efficiency model that is not always appropriate for evaluating an institution dedicated to providing public services.

While the stated principles guiding the plan including a focus on HHC's continuing mission of providing quality care, the actual content of "The Road Ahead" makes it quite clear that the primary goal is cutting costs and that this overrode any concern for patient care.

With that priority, it is not surprising that HHC selected Deloitte, a consulting firm with a corporate approach. Corporate jargon permeates the report, which speaks of "cost-effective, efficient and competitive organization," "cost efficient" models and "target markets," rather than "quality patient care" and HHC's responsibility to help the needy. And the report's 19 pages make scant mention of specific proposals to improve patient services or the quality of care.

The plan indicates that HHC will continue to reduce its staff through attrition as it downsizes personnel through layoffs and contracting out. It simplistically assumes that reducing the staff is intrinsically good and makes no sound argument that patient care will not suffer from these cost-cutting measures.

"The Road Ahead" neither asks nor answers fundamental questions about maintaining the quality of care or appropriate staff-patient ratios with dramatically fewer employees. It does not even study the potential for overtime costs to soar as headcount shrinks and patient care needs rise. In a transparent cosmetic device, the plan calls for the "equitable" step of cutting administrative staff by 10 percent. But, again, it does not examine the potential consequences of that action for services or efforts to increase revenue.

HHC's Restructuring Steering Committee spent less than two days evaluating the consultant's recommendations to decide on \$1.2 billion in cost reductions and revenue enhancements over four years. While HHC rejected a few of Deloitte's more draconian recommendations, such as closing one-third of the community health centers and eliminating nearly all long-term care beds. The savings of \$125 million a year for four years through employee attrition account for nearly half of the total projected savings and dwarf the \$30 million in additional revenue anticipated by the plan.

## ***Lack of Transparency***

Deloitte claims to have compared HHC with nationally recognized health industry benchmarks and staffing models. These benchmarks are never identified and their sources and data models are never disclosed. For instance, the restructuring plan says HHC administrative units have "higher wage and fringe benefit rates than benchmarked entities for the same services." The plan does not identify the benchmarks, wages or benefit rates used to reach its conclusion.

A master plan for the future of such a large-scale urban health care provider cannot be evaluated or even taken seriously with no citations, no sources and no public data. Did Deloitte use benchmarks and staffing model ratios appropriate for public health care delivery in the New York Metropolitan area? The omission of this information makes it nearly impossible to subject Deloitte's conclusions to a rigorous analysis.

## Slash-and-Burn Restructuring

### Privatization and Contracting Out

With “The Road Ahead,” HHC seems to have adopted an ideology-driven goal of contracting out public responsibilities to private firms, even where costs could increase, savings are unproved or trivial, or the quality of service could decline. Support services like testing patients’ blood, providing clean linens and maintaining buildings and grounds are vital responsibilities in achieving HHC’s mission.

In our studies of many city agencies, DC 37 has found massive waste of public funds as well as corruption, conflicts of interest and a lack of accountability in contracting out work that dedicated, experienced employees can generally do more efficiently at lower cost. Contracting out undermines the civil service system, which selects workers based on merit and fitness rather than cronyism, nepotism and political patronage, and usually amounts to union busting. Employees of private companies doing public work are often unrepresented, uninsured (*saddling HHC with their health-care costs*) and so poorly paid as to constitute an economic burden.

**Brooklyn Central Laundry:** Over 100 union employees currently work at Brooklyn Central Laundry. Firing them would be a severe blow to their families and the economy of the East Flatbush community.

“The Road Ahead” claims that privatization of HHC’s laundry and linen services would save \$6.1 million — less than one one-thousandth (0.09 percent) of the corporation’s \$6.7 billion annual budget. HHC’s Request For Proposal for contracting out the laundry work makes it clear that the plan aims to save this minuscule amount only by further depressing wage rates in an already low-paid job.

HHC has been down this road before. In its previous experience with contracting out laundry services, HHC hospitals experienced inventory control problems and delivery delays that may be acceptable when vendors launder cleanup rags and commercial uniforms but were intolerable for public hospital linen supplies. DC 37 and HHC reached an agreement that improved machinery and reduced costs, and most HHC hospitals happily resumed using the in-house services of the Brooklyn Central Laundry.

Ignoring the lessons of history this time around, HHC has shown no interest in discussing the matter. In direct violation of its agreement with DC 37 to bring all laundry work in-house, HHC met with potential bidders Aug. 16 to begin contracting out the laundry services again. The interested bidders included companies cited for multiple health and safety violations, businesses with track records of poor work and frequent complaints, and employers who have driven wage rates to the bottom.

DC 37 is committed to stopping HHC’s plan to privatize Brooklyn Central Laundry. We will fight at the bargaining table, in the courts, the streets and the Legislature.

**Dialysis services:** DC 37 opposes further contracting out of dialysis services, which the restructuring plan estimates would save \$5 million. We believe these services can be provided more efficiently in house. We should note also that HHC has already invested millions of dollars to upgrade dialysis equipment at Bellevue Hospital despite its claim of lacking the capital funds to continue to support these services.

**Laboratories:** DC 37 also opposes the recommendation to contract out HHC's four major labs to a commercial laboratory firm, claiming that test costs are lower at high-volume commercial labs. The report provides no information about the data and sources Deloitte used, and we would like to examine the data more closely. We do not believe the administration's analysis has taken into account potential indirect and new costs associated with contracting out, such as delays and shipping expenses. We are also concerned that the potential for cutting corners to increase profits could affect privacy and accuracy.

### ***Reckless downsizing***

**Laying off maintenance workers:** On Sept. 17, HHC plans to lay off 72 skilled blue collar workers, including 59 Laborers, seven Locksmiths, two Supervising Locksmiths, three Radio Repair Mechanics and a Printing Press Operator, all represented by DC 37 local unions.

In addition to the workers in DC 37, HHC has targeted 73 Carpenters for layoff. All told, HHC expects to save \$32 million by letting go 450 unionized workers from its 1,200-member trades staff.

Apart from our concerns about the devastating effects of the layoffs on the workers involved, the union opposes these firings because of the impact the action would have on HHC itself. Without sufficient in-house trades staff, HHC will not be able to maintain its physical plants and grounds. We already have word that HHC intends to rely on outside contractors unfamiliar with its facilities, although the report does not attempt to evaluate the potential costs of this move, which could increase. The loss of the in-house employees will directly affect the timeliness and quality of repair and maintenance work in HHC buildings, potentially endangering the system's Joint Commission on Hospital Accreditation status.

**Closing clinics:** "The Road Ahead" says that because of low outpatient Medicaid reimbursement rates, HHC will close one dental clinic and five child health clinics that together service 6,000 children, adults and seniors in Brooklyn, Queens and the Bronx. The report says these facilities were selected for closure based on low utilization rates, physical conditions of the clinics and proximity of other clinics.

We urge HHC to reconsider this action and to explore alternatives to these closures, which will negatively impact the communities these clinics were created to serve.

## ***Reducing Access to Services***

"The Road Ahead" calls for consolidating services to save several million dollars. This is another example of the folly of "cost-efficiency" analysis based on improving the bottom line at the expense of human need.

HHC contends that it will save \$3.4 million by consolidating orthopedic services. DC 37 is deeply concerned that this action will reduce the access of patients with diabetes and debilitating diseases to these services. Over the past decade, HHC abandoned its consolidation of services in several treatment networks after acknowledging that this unduly limited patients' access to care.

HHC also intends to consolidate joint and spine surgeries into one location in each of the city's five boroughs. This action would create a tremendous hardship for many patients. Spine and joint surgeries are major operations that require patients to undergo extensive rehabilitation. Before embarking on this change, HHC should attempt a pilot program.



## Positive Initiatives

The union agrees with two of the recommendations.

We are particularly encouraged by the recommendation to contract in information technology services. According to the restructuring report, this will save an estimated \$5 million. The report correctly notes that computer consultants generally command market fees that are higher than the salary and benefit costs of unionized in-house employees.

We also support the report's recommendation for increasing HHC's revenue by \$135 million. The administration hopes to achieve this through improvements in the documentation of patient care, including better coding of procedures. HHC is also working with insurance providers to expand and diversify its patient base and to encourage more referrals from community physicians.

### DC 37 Recommendations

***The union has a number of recommendations for savings at HHC and would like to work with HHC to ensure their implementation. These include:***

- Terminating the contract with Sodexo and returning HHC's Cook-Chill food service to in-house management
- Increasing the enrollment of patients in HHC's MetroPlus HMO.
- Expanding the MAP on-site offices to maximize HHC's ability to capture revenue.
- Developing contracting-in initiatives for fee collection, interpretation services, elevator maintenance and other trades titles, and
- Targeting revenue-producing and cost-saving job titles for backfilling, training and upgrading.
- Other steps we support include establishing a program to encourage savings by reducing contracting out; creating a task force for training and workforce development; and setting up a labor-management committee to explore how best to implement the Breakthrough initiatives (*which outline recommendations for improving revenue generation, patient care and operations*) on a corporation-wide basis.

## Conclusion

We are concerned that the business-oriented approach of “The Road Ahead” will ultimately jeopardize the Health and Hospitals Corp.’s mission of providing quality care to all New Yorkers, regardless of their ability to pay. We are unconvinced that the contracting-out proposals will achieve the desired savings, though they will certainly destroy a vital community resource – hundreds upon hundreds of good jobs with decent benefits.

District Council 37 and its affiliated locals urge HHC to reconsider the flawed restructuring initiatives that we have identified. Instead, we recommend that the HHC administration engage in meaningful discussions with the union about how to provide quality health care services efficiently and effectively.

As our history shows, District Council 37 is deeply committed to the mission of the New York City Health and Hospitals Corp. We helped create HHC in 1970, and over the years we have worked with the community to defend the public health care system against the vicious budget cuts and privatization schemes of governors and mayors. Our union has lobbied in Washington and our members have rallied in Albany to get the funds HHC needed.

As other hospitals close and new national health legislation is implemented, we want to keep HHC healthy to meet the growing health care needs of the people of New York City today and in any future emergencies, such as epidemics or terrorist attacks. It is our responsibility as a public service union to see that HHC does not weaken its ability to respond to a crisis.

Our analysis shows that the privatization plans and staffing cuts of “The Road Ahead” would constitute a self-inflicted wound to the heart of HHC, quality patient care. We are fighting this plan because we care.

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