DOC Cost Containment Plan

Per House Bill 3194 (2013)

October 1, 2014

Oregon Department of Corrections

Colette S. Peters
Director

The mission of the Oregon Department of Corrections is to promote public safety by holding offenders accountable for their actions and reducing the risk of future criminal behavior.

HB 3194 - Cost Containment Plan

OREGON DEPARTMENT OF CORRECTIONS

Executive Summary

House Bill 3194 (2013) requires the Oregon Department of Corrections (DOC) to deliver a report to the Legislative Assembly that identifies cost containment solutions that work to effectively meet a 5 percent reduction in per-inmate cost over a ten-year period. The period of time in which to accomplish this reduction is from July 1, 2013, to June 30, 2023. The bill specifically mandates that any solution proposed should not sacrifice the department's ability to maintain public safety, prison security, and programs that effectively reduce recidivism.

DOC has completed its report and, in accordance with ORS 192.245 (as outlined in the bill), is providing this Executive Summary to the Legislative Assembly by electronic mail. One copy of the report is being provided to Kevin Hayden, Legislative Administrator, and, per Section 50 (3) of HB 3194, one copy is being provided to the Task Force on Public Safety established in Section 57 of the bill.

In order for DOC to meet the intent of HB 3194 in achieving a 5 percent reduction in the inmate cost per day (CPD), the department must reduce its June 30, 2023 forecasted CPD rate of $128.37 (not including inflation cost) to $121.95. This equates to approximately $72.8 million in reductions from the period of July 1, 2013, to June 30, 2023. As instructed by the bill, **this target does not include any cost for inflation or the cost of opening a new prison.** While the DOC doesn't anticipate the need to open a new prison in the next 10 years, inflation to services and supplies (food, medical supplies, professional services, and other general office expenses) will generally cost between 3.5% and 5.0% per biennium, thus rendering the forecasted CPD rate of $128.37 much less than what the DOC actually expects 10 years from now.

DOC has developed a Cost Containment Plan that includes a variety of cost containment solutions, some active and some for future implementation, which could work to effectively meet the legislative goal. The cost containment solutions identified include a combination of cost avoidance measures and budgetary measures. The cost avoidance measures represent sustainable cost reduction actions the department can implement through either operational changes or new law changes. The budgetary measures represent cost savings that can be achieved through actions that would require future legislative support and/or funding.

The Cost Containment Plan includes cost avoidance measures equal to $61.6 million and budgetary measures that equal $18.3 million for a total estimated cost savings equal to $79.9 million – $7.1 million higher than the targeted reduction goal. This translates into a CPD rate of $121.32 at the end of 10 years, which is $0.63 below the target rate of $121.95. Based on this CPD rate, the reduction would be equal to 5.49 percent by the end of the 10-year period.

If there are specific follow-up questions regarding this Executive Summary or the full report, please contact DOC's Chief Financial Officer Rick Crager at 503-945-9007 or rick.w.crager@doc.state.or.us.

Introduction

One of the goals established within House Bill 3194 (2013) was to identify solutions to effectively reduce the per-inmate costs of the Oregon Department of Corrections (DOC). As identified in Section 50 (1) of the bill, "The Legislative Assembly hereby establishes as a goal the reduction of the Department of Corrections per-inmate costs by five percent over the 10-year period beginning July 1, 2013."

In identifying ways to meet the legislative goal, the bill instructed DOC to, no later than October 1, 2014, provide a report to the Legislative Assembly that identifies cost containment solutions that work to effectively meet a 5 percent reduction in per-inmate costs. It was further mandated by the Legislature that, while these solutions should work to reduce costs, they may not sacrifice the DOC's ability to maintain public safety, prison security, and programs that effectively reduce recidivism.

In meeting the request of the Legislature, this report represents both information on what has already been implemented within the DOC's current 2013-15 budget, along with other cost containment ideas that could work collectively in helping the Legislature meet the goal of a 5 percent reduction in per-inmate costs over the next 10 years.

Calculation of Reduction Goal

In accordance with Section 50 (4)(a), the per-inmate cost must "include costs attributable to the provision of security and housing, health care, food services, treatment programs and recidivism reduction programs and other direct costs related to institutional operations." This definition directly correlates with the DOC standard cost per day (CPD) rate represented throughout all stages of the agency budget development process. Therefore, to calculate the target reduction goal, the DOC standard CPD rate is being used as the basis for calculating the reduction goal.

As mentioned above, HB 3194 requests a report on all cost containment solutions beginning July 1, 2013. In order to recognize the cost containment solutions built into the 2013-15 Legislatively Adopted Budget, it would be appropriate to use the CPD rate calculated prior to implementation of the 2013-15 budget. The CPD rate for the 2011-13 Legislatively Approved Budget could be used; however, to get a true rate that is based on the 2013-15 biennium, which builds off the 2011-13 base budget, the CPD rate for 2013-15 Current Service Level (CSL) will be used.

The CPD rate for the 2013-15 CSL was $99.89. In calculating this rate, the total biennial contributing cost equated to $1.09 billion with total statewide bed days at 10,895,821. In order to estimate the CPD rates over the course of 10 years, the total contributing cost was estimated over five biennia, and the statewide bed days were calculated using the most current forecast and 10-year housing plan. **As part of the mandate in providing this report, HB 3194 specifically requested that, in determining the reduction target, the cost of "opening up new prisons or inflation" should not be considered.** Therefore, in terms of calculating all future contributing costs from the 2013-15 CSL, DOC only computed personal services growth, as well as the emergency bed cost (services and supplies) for the growth in prison population. **No inflation for services and supplies was included in the estimated cost**, nor are there any assumptions for opening a new prison.

The personal services growth rate is estimated at 9.5 percent per biennium, which is based on the DOC historical experience throughout the last four years. The emergency bed cost is based on the biennial statewide bed days calculated in the most recent 10-year housing plan (based on the April 2014 population forecast). This increase is then multiplied by the current marginal rate of $21.92 for emergency beds.

Based on these assumptions, the rate at the end of the 10-year period is estimated to be $128.37 (not including inflation).By applying a 5 percent reduction target to this rate, the computed target decrease in the CPD rate is $6.42. For the purposes of HB 3194 and its goal of reducing the DOC per-inmate cost by 5 percent in 10 years, the established target CPD rate is $121.95. This equates to a $72,778,301 reduction in contributable costs between July 1, 2013, and June 30, 2023. (See Table 1 & 2 below for CPD rate growth calculation and target CPD rate and reduction.)

It's important to note that while the DOC understands that HB3194 does not want the cost of inflation considered in this report, inflation to services and supplies (food, medical supplies, professional services, and other general office expenses) will occur typically between 3.5% to 5.0% per biennium, thus rendering the forecasted CPD rate of $128.37 much less than what the DOC actually expects 10 years from now.

Table 1: Calculated CPD rate for 10-year period – Based on 2013-15 Current Service Level

Institution Cost Avoidance	2013-15	2015-17	2017-19	2019-21	2021-23
Total Contributable Expenses	$1,088,383,579	$1,170,879,634	$1,256,088,187	$1,352,025,917	$1,455,220,448
Average Daily Population	14,905	15,030	15,107	15,354	15,508
Statewide Bed Days	10,895,821	10,988,201	11,043,129	11,223,456	11,336,184
Cost Per Day Rate	$99.89	$106.56	$113.74	$120.46	$128.37

Table 2: Calculated CPD target rate and target reduction – Based on 2013-15 Current Service Level

CPD Rate Year 10 - Projected	CPD Rate 5% Reduction	CPD Rate Year 10 - Target	Target Reduction Amount
$128.37	($6.42)	$121.95	($72,778,301)

Cost Containment Plan

To identify the cost containment solutions that move DOC toward meeting the target rate and reduction goal, the agency focused only on sustainable reduction solutions that would enable the department to effectively manage its services based on the conditions beginning July 1, 2013. The cost containment solutions identified include a combination of cost avoidance measures and budgetary measures. The cost avoidance measures represent sustainable cost reduction actions the department can implement through either operational changes or new law changes. The budgetary measures represent cost savings that can be achieved through actions that would require future legislative support and/or funding.

For both cost avoidance and budgetary measures, the target reductions (or increases) do not, as with the calculated CPD target, include any costs that contribute to "community corrections grants, debt service, capital construction, opening new correctional facilities, or inflation." In addition, all targeted cost containment solutions are considered sustainable in addressing the CSL of need as of July 1, 2013, and moving forward.

The table below provides the Cost Containment Plan developed by DOC. Within the plan, the cost containment solutions are outlined within specific time periods over the course of the next 10 years. Each solution has estimated cost reduction targets that work towards meeting the total $72.8 million target reduction and are expected to remain the same from the point in which they are identified and going forward into future biennia. All cost avoidance measures identified for the 2013-15 biennium have been incorporated in the LAB; however, the cost savings identified represent the most current estimate as opposed to what was forecasted in DOC's budget.

Table 3: Cost Containment Plan

Cost Containment Solutions (In Millions)	2013-15	2015-17	2017-19	2019-21	2021-23	Total
Cost Avoidance Measures						
Institutional Cost Avoidance	$ 1.1	$ 2.0	$ 0	$ 0	$ 0	$ 3.1
Medicaid Billing for Inmates	$ 6.0	$ 1.5	$ 0	$ 0	$ 0	$ 7.5
Sentencing & Transitional Leave	$ 13.1	$ 0.9	$ 1.0	$ 1.1	$ 1.2	$ 17.3
Cost Cutting Measures	$ 26.0	$ 1.7	$ 1.8	$ 2.0	$ 2.2	$ 33.7
Total Cost Avoidance Measures	**$46.2**	**$ 6.1**	**$ 2.8**	**$ 3.1**	**$ 3.4**	**$ 61.6**
Budgetary Measures						
Institution Consolidation	$ 0	$ 29.4	$ 8.9	$ 2.1	$ 2.2	$ 42.6
Employee Wellness	$ 0	$ (17.0)	$ (1.5)	$ (1.7)	$ (1.8)	$ (22.0)
Electronic Health Records	$ 0	$ (2.3)	$ 0	$ 0	$ 0	$ (2.3)
Total Budgetary Measures	**$ 0**	**$ 10.1**	**$ 7.4**	**$ 0.4**	**$ 0.4**	**$ 18.3**
Total Cost Containment Solutions	**$ 46.2**	**$ 16.2**	**$ 10.2**	**$ 3.5**	**$ 3.8**	**$ 79.9**

Cost Containment Solutions

The estimated cost savings outlined in the above Cost Containment Plan equal $79.9 million – $7.1 million higher than the targeted reduction goal. Each cost containment solution outlined in the above plan is based on a set of specific assumptions, or in some cases, actual implementation. In all cases, cost savings associated with personal services creates future savings from avoided personal services growth assumed under the reduction target calculation. **Any cost savings linked to either services and supplies or capital outlay has no future cost savings related to inflation since HB 3194 specifically requests its exemption.**

Below is a summary of all cost containment solutions and more information on how they were determined.

Institution Cost Avoidance

The institution cost avoidance measure began in the 2013-15 biennium in an effort to gain increased efficiencies and cost savings throughout all 14 active DOC institutions. The focus of each institution has been to reduce various costs related to maintenance practices, food and supply costs, energy usage, and various other internal practices. The total actual and estimated cost reductions are relatively minimal at $3.1 million in services and supplies, yet represent a very strategic effort to mitigate cost. The table below provides the plan for achieving institution cost avoidance.

Table 4: Institution Cost Avoidance

Institution Cost Avoidance (in millions)	2013-15	2015-17	2017-19	2019-21	2021-23	Total
Develop and implement process improvement opportunities for both administrative and operational activities (i.e. food cost, food services, laundry, maintenance).	$ 0.7	$1.4	$ 0	$ 0	$ 0	$ 2.1
Implementation of energy efficient measures designed to reduce the overall utility cost of institutions.	$ 0.3	$0.5	$ 0	$ 0	$ 0	$ 0.8
Identify opportunities to be more cost efficient on the issuance and optionality of inmate clothing.	$ 0.1	$0.1	$ 0	$ 0	$ 0	$ 0.2
Total Institution Cost Avoidance	**$1.1**	**$ 2.0**	**$ 0**	**$ 0**	**$ 0**	**$ 3.1**

Medicaid Billing for Inmates

Through the passage of House Bill 2087, the department was given authority to act as a designee on behalf of individuals residing within its correctional institutions for establishing eligibility for medical assistance during periods of hospitalization or treatments outside of DOC facilities for more than 24 hours. As a result, costs associated with the external medical treatment for eligible DOC inmates may be billed through Oregon Medical Assistance Programs (as Medicaid), resulting in cost savings for the department. This law change went into effect January 1, 2014, and was anticipated to save DOC $12.57 million for the last 18 months of the 2013-15 biennium. The $12.57 million impact was accounted for in the department's 2013-15 budget in anticipation of the program's effectiveness.

The DOC is continuing to refine and develop its procedures and processes to maximize efficiency and effectiveness; however, based on current trends and projections, it is clear the estimated savings for 2013-15 will fall short of the $12.57 million projection. The current estimated cost savings for the 2013-15 biennium is $6 million in services and supplies, with the expectation that it will grow in 2015-17 by $1.5 million after the process has a full biennium to operate and gain additional efficiencies.

Sentencing and Transitional Leave Changes

Along with the requirement of this report, HB 3194 also provided for sentencing changes to felony marijuana offenses, felony driving while suspended or revoked, and the Measure 57 crimes of robbery in the third degree and identity theft. Additionally, it increased the amount of short-term transitional leave for eligible inmates from 30 days to up to 90 days. All of these changes are anticipated to result in a reduction of offenders incarcerated in DOC. As a result, a $19.1 million reduction was accounted for in the department's 2013-15 budget.

As of October 1, 2014, the estimated cost avoidance for the 2013-15 biennium is $13.1 million – $8.2 million related to sentencing changes and $4.9 million related to short-term transitional leave changes. This is $6 million short of the anticipated $19.1 million in savings. Approximately 74 percent (or $9.7 million) of the $13.1 million 2013-15 cost savings is associated with personal services; therefore, an estimated $4.2 million is saved in future biennia due to the avoided cost related to personal services growth.

Cost Cutting Measures

For the 2013-15 biennium, through the request of the 2013 Legislature, DOC was asked to reduce its overall budget by $77.9 million by identifying potential cuts and efficiencies within its budget. A portion of these cuts were placed in the department for the purpose of balancing the statewide public safety budgets. In addition, the agency was requested to absorb $2.5 million of the $27.8 million 2013-15 salary package, which was negotiated after the end of the 2013 session.

In response to this requirement, DOC has cut approximately $26 million in costs that are contributable to the CPD rate. Of the $26.1 million, $8.5 million is related to cut backs in services and supplies, achieved through a combination of process efficiencies as well as challenging cut backs in professional development, staff training, travel, and other office expenses. The remaining reductions have been achieved through personal services savings created by reducing management staff and holding positions vacant and reprioritizing certain inmate programming services, internal staff responsibilities, and various agency initiatives.

The $17.5 million in personal services savings for 2013-15 creates an additional $7.6 million in future biennia avoided cost related to personal services growth.

Institution Consolidation

Within the DOC's 10 Percent Reduction Plan – outlined in the 2015-17 Agency Request Budget (ARB) – is the consolidation of institutions. To reach the target rate and reduction goals identified in this report, the process of consolidation would need to be considered. This would, of course, require support from the Governor and Legislature; however, it would create a 10-year cost avoidance of $42.6 million that could be applied against the target reduction goal of $72.8 million.

This cost containment solution would require DOC to activate the medium facility at Deer Ridge Correctional Institution (Madras) and convert it to a minimum-custody facility. Based on this conversion, the overall capacity is estimated to be 1,794 beds (1,228 permanent beds and 566 emergency beds). The DOC estimates that the Deer Ridge Correctional Institution could accommodate the population of an estimated four minimum-custody facilities, as well as relieve temporary and emergency beds in two additional institutions.

The end result would be an increased capacity for temporary and emergency beds from 954 to 1,310, creating less stress on the already maxed-out capacity for emergency beds; $29.4 million in cost savings in the 2015-17 biennium; an additional $8.9 million in cost savings in the 2017-19 biennium; and $4.3 million in cost avoided from personal services growth.

Employee Wellness

To effectively manage the inmate population, DOC depends on its institutional staff, particularly those in the correctional officer series, who coordinate security and safety. The department's highest priority is to ensure that its institutions are appropriately staffed with well-trained individuals who are healthy and able to live long, meaningful lives well beyond retirement.

Based on current research and experience, corrections work is very difficult and stressful. The fact is that:

- One in three Oregon DOC employees has symptoms of post-traumatic stress disorder (PTSD) – a rate higher than that of firefighters and deployed military, and four times that of the general population.
- Employees exhibiting PTSD have higher levels of tobacco and alcohol use, more health problems, a higher number of doctor visits, and work absences.
- The National Institute of Corrections reports the average life expectancy of a corrections officer after 20 years of work is 58, compared to the national average of 75.

There are many factors that contribute to staff wellness – or a lack thereof. One factor is stress caused by increased work demands due to inadequate staffing. To address this issue, DOC sought assistance from the Association of State Correctional Administrators (ASCA). ASCA conducted a DOC staffing review to determine what actions were necessary to determine an appropriate post relief factor and bring the department's staffing level up to an industry standard.

Through its review, ASCA determined that DOC needs to increase its staffing levels by a total of 33 correctional officers across all institutions in order to achieve the appropriate post relief factor. Additionally, ASCA recommended 67 new correctional officer positions to develop new posts (staffed on one, two, or all three shifts) to meet correctional standards for best practices.

The estimated cost for establishing 100 correctional officer positions is $17 million in 2015-17, along with an additional $4.9 million for personal services growth through the 2021-23 biennium. To operate DOC institutions in a way that returns the most efficient and effective results for both the services provided by the agency and the overall well-being of DOC employees, this investment is critical. While this cost will offset the other cost containment solutions outlined in this report, it will ultimately yield long-term savings for the agency and, even more importantly, increase health, wellness, and safety for the department's greatest asset – its employees.

Through the investment of these additional staff, DOC expects a decrease in overall sick leave usage, decreased work-related injuries, and improved mental health. While this long-term sustainable cost savings is very difficult to quantify and forecast without further research and experience, the department expects savings through reduced overtime (by not having to cover posts caused by leaves or vacancies); a decrease in staff and inmate assaults due to increased oversight; increased morale of staff through adequate coverage of posts, which improves overall safety; and reduced staff grievances from inadequate break coverage and forced overtime.

Electronic Health Records

In 2014, the SB 843 (2013) Workgroup on Correctional Health Care Costs will include the "Use of Electronic Health Record (EHR) Systems" as one of its primary recommendations in its report to the Joint Ways and Means Public Safety Subcommittee. This came after the Workgroup reviewed nationwide efforts to increase efficiencies and prioritized recommendations based on projected impact.

An EHR system would provide future cost avoidance, slow the rate of growth in staff needed to provide care, and present DOC with efficiencies, while improving medical operations in several key areas. It is expected that an EHR would:

- Decrease risk exposure due to chart errors, lack of timely information, and information security;
- Improve medication distribution processes, saving time and reducing inefficiencies;
- Improve efficiency of pharmacy and provider interactions;
- Decrease amount of inmate transfers due to medical reasons;
- Reduce effort required to store and manage paper-based records;
- Improve efficiency of tele-medicine efforts;
- Increase opportunities for data analysis and outcome measurements; and
- Provide access to information via the Health Information Exchange (HIE).

Similar to the Employee Wellness cost containment solution, an EHR system would require a cost investment that would offset the other cost containment solutions in this report. This system would require a long-term cost of $2.3 million for a subscription to use the appropriate EHR software. However, long-term sustainable cost savings would be achieved through this investment (the department has included a Policy Option Package in its 2015-17 ARB for this investment).

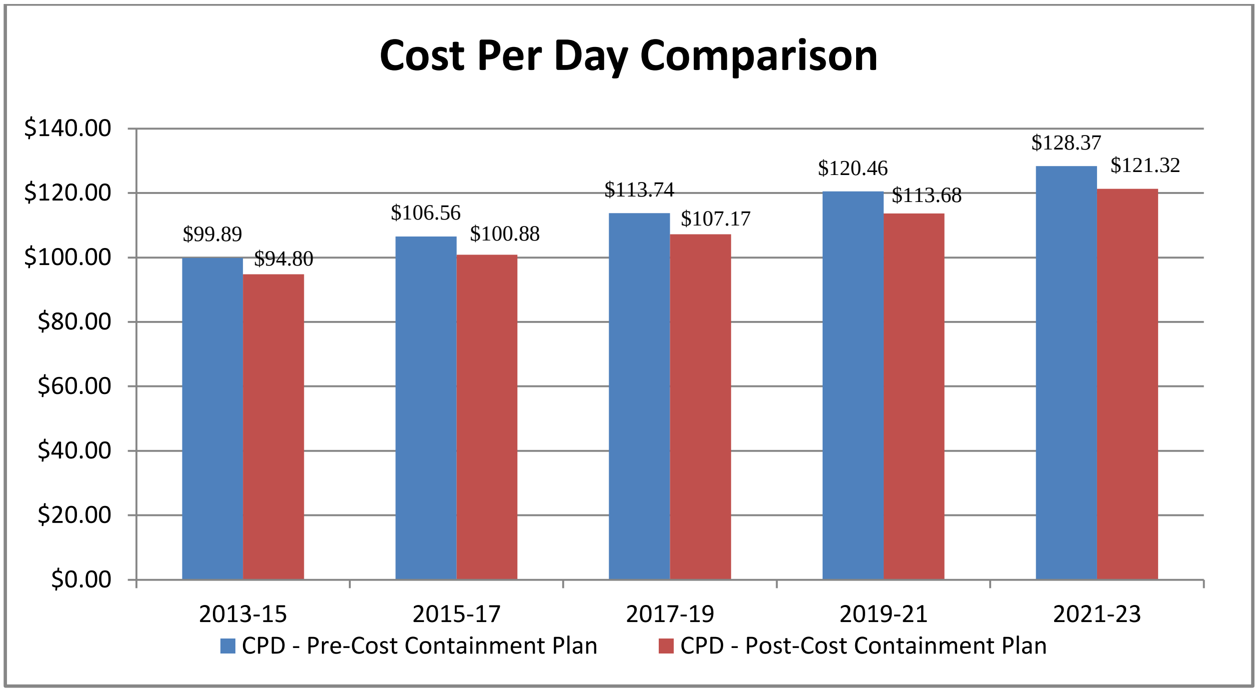
As with employee wellness, it is very difficult to quantify this savings; however, DOC expects savings to be generated through a reduced need for office and technology support to manage hard copy records, and increased efficiencies in providing inmate medical services.

Impact of Cost Containment Plan

The focus of this report is to provide cost containment solutions based on the budget environment and current level of costs as of July 1, 2013. As instructed in HB 3194, the cost of inflation or opening of new institutions is not considered; therefore, cost growth related to expenses such as external professional services, food, medical supplies, deferred maintenance costs, and other general office expenses are not included. The DOC typically experiences between a 3.5%-5% inflation growth for these types of cost. Additionally, all costs associated with housing inmates beyond DOC's current capacity are also not considered. While the current population forecast does not anticipate the need for a new prison, the assumptions in this report only use the marginal cost associated with emergency beds to meet the need. The long-term use of emergency beds is not a sustainable model.

By dismissing potential costs associated with inflation and the opening of any new prisons, DOC concludes a plan could be implemented that would return an estimated $79.9 million in cost savings over the next 10 years. This translates into a CPD rate of $121.32 at the end of 10 years, which is $0.63 below the target rate of $121.95. Table 5 below provides a summary of the impact the Cost Containment Plan would have on the CPD rate starting from the 2013-15 CSL.

Table 5: Impacts of Cost Containment Plan



CPD Based on 2013-15 CSL	2013-15	2015-17	2017-19	2019-21	2021-23
CPD - Pre-Cost Containment Plan	$99.89	$106.56	$113.74	$120.46	$128.37
CPD - Post-Cost Containment Plan	$94.80	$100.88	$107.17	$113.68	$121.32
Rate Reduction	**($5.09)**	**($5.68)**	**($6.57)**	**($6.78)**	**($7.05)**
Percent Reduction	**5.10%**	**5.33%**	**5.78%**	**5.63%**	**5.49%**