Jack Stout

INTERFACE

Fire Service EMS as a Public Utility

by Anthony J. Meyers
Fire Chief
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Several years ago I conducted a bid for ambulance services on behalf of the city of Kansas City, Missouri. During the process, I was approached by attorney Rick Gepford, representing a local of the International Association of Fire Fighters. Mr. Gepford wanted to know if it was possible to form an employee-owned corporation for purposes of bidding for the multimillion dollar Kansas City ambulance service contract.

In discussing the matter with Mr. Gepford, I quickly learned that a good deal of solid thinking had already taken place concerning both the structure and financing of the employee-owned corporation. Experts had already been consulted regarding the forms of organization necessary to protect shareholders' rights while simultaneously insulating the board of directors and top management from pressures from the field to turn the entire organization into an early retirement for field personnel. I was impressed at the level of thinking that I saw, and felt that these guys had a fighting chance.

The labor leaders formed an organization, submitted a letter of intent to bid, raised reportedly over $100,000 from participating workers, gained cooperation from a sizable majority of the labor force and even attended a pre-bid conference in another city to gain experience. I am told that they had financing arranged for over $300,000 more in working capital—enough to do the job.

Unfortunately, when the dust settled this employee-owned company failed to submit a bid. I suspect the time simply ran out. So much time and energy must have been absorbed in organizing the group, raising the initial capital and securing additional financing that time ran out for careful preparation of a prudently priced bid proposal.

A year or so after that Kansas City experience, I had the pleasure of working with the city of Fort Wayne, Indiana, both to help upgrade the city-operated EMS department (under the command of Fire Chief Anthony J. Meyers), and to install a public utility model system, eventually requiring competitive selection of the city's ambulance provider.

*With this **jems** issue devoted to fire service EMS, I am honored to present two closely related guest articles—one by Chief Meyers, a 22-year veteran fire fighter and current fire chief of Fort Wayne, Indiana, and the other by Mr. Frank Heyman, chief financial officer of the city of Fort Wayne. I am certain that "Interface" readers will find the experiences and opinions of these men both fascinating and, for some, probably controversial. But neither fire chiefs nor city controllers are likely to deny that the experience of these two men is a story well worth telling.—Jack Stout*

Nearly four years ago I accepted the challenge of converting the EMS department under my command into an efficient contract provider of paramedic services. Our department's entire budget would come from monthly contract payments, not from city funds. The contract would be identical to the most demanding private ambulance contracts in the entire industry—the Fourth Party's "Standard Provisions of Public Utility Model Procurements." Compensation would be comparable to competitively established contract prices of some of America's best and most efficient private providers. And, after a time, we would face the industry's stiffest possible competition for the right to continue as our community's ambulance service provider.

The "Interface" columns in the August and October 1983 *jems* issues presented some of the more visible changes that were necessary to our eventual success. Those articles are required reading for any fire department official seriously contemplating entry into the world of competitively awarded contract ambulance services. I will not repeat here the information provided in those two articles, except to say that this project's astounding success is largely attributable to the professionalism, dedication and downright bravery of our field paramedics and dispatch personnel. Unless your field personnel are extremely professional, willing to work harder without nickeling and diming you to death, are willing to serve both emergency and non-emergency patients courteously, and above all are willing to risk the great uncertainties of real organizational change, I advise you to forget it and prepare to exit the ambulance service industry within the next few years.

I would like to add one comment, however, to what has already been written about the internal changes made within our EMS department. Those earlier articles didn't say it, but our EMS operation has always been structured as a separate department. It was under my command, but administratively separate from the fire service. I would have it no other way. The business of prehospital care (and it *is* a business) is in no significant way analagous to fire protection service. Productivity requirements are totally different (at least if you intend to stay in the business), the rate of technological change in EMS is far more rapid (at least if you intend to keep up with the industry's best), and the EMS labor market for both managers and field personnel is increasingly a national market, meaning that the EMS wages, benefits, work schedules and recruitment programs must be far more innovative and flexible than those we have grown used to in the fire service.

Our fire department provides a superb first responder program, complete with paramedic-assist training, partially funded by first responder service charges billed and collected for us by the Ambulance Authority. But that and the fact that I command both departments ends the list of connections between our fire department and our EMS department.

More and more large American

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*If you have a question, a problem, or a solution related to the public/private interface in prehospital care, address your letter to: "Interface" **jems**, P.O. Box 1026, Solana Beach, CA 92075.*

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cities are beginning to question whether government should be a provider of ambulance services. And they are questioning the wisdom and necessity of local tax financing of EMS as well. Just as the value of street-level competition was being questioned a decade ago, the *non-competitive* award of what amounts to an ambulance service franchise to a fire department or third-service department is being questioned today. No large government provider of ambulance services will escape some form of competition forever, because no organization has an inalienable right to serve or even to exist.

Increasingly, the organizational privilege of existing and serving will have to be earned, competitively. And while the administrative technology of contracting for fire protection services is still in its amateur stages of development, compared with something as thoroughly thought out and tested as the public utility model, you can bet that an equally sound procurement technology will eventually be developed for fire protection. When that happens, we'll *all* have to compete for the privilege to serve.

Accepting the Reality

To stay in the ambulance service business as a contract provider, the organization must be both willing and able to furnish *all* the required services. That was the first shock to our EMS department. We learned that the buyer, in our case the Three Rivers Ambulance Authority, was not interested in merely purchasing local paramedic emergency service. To create a financial base capable of supporting the caliber of service being demanded, the Authority subcontracts to us paramedic-level emergency and nonemergency patient transport services; long-distance, interhospital paramedic transport throughout our 10-county medical trade area; and even air transport services. Special events coverage, extensive mutual aid, work with CPR training, public relations, transfer services marketing and miscellaneous related services round out our contract's scope of work. So our first shock came with learning that we could no longer "sell" just the exciting and dramatic part of the ambulance service business. From a business perspective, we had to get serious or get out.

Of course it was true that, in order to "peddle our wares" to a knowledgeable buyer of contract ambulance services, we had to upgrade our clinical capabilities dramatically, double our unit-hour utilization ratio, learn system status management, double our response time performance and cut both labor and overhead costs per unit hour by nearly a third. We did all that. But as sweeping as those operational changes were, they were emotionally less dramatic than the enormous expansion in our department's overall mission.

Win Some Lose Some

Our own city controller's report in this same "Interface" column indicates, at least financially, how successful we were—or rather, how successful our personnel were, with our support. At the time of this writing, our EMS department is meeting all clinical and response time requirements and financial projections, and we have been doing so under contract to the Ambulance Authority for well over a year. Our emergency and nonemergency service, both local and long distance, is as courteous, professional, reliable and clinically sound as any in America, public or private.

The test of competition was held several months ago. In straight-up competition, apples-to-apples, we beat Shepherd Ambulance Company of Seattle and Tacoma, one of America's largest and most respected private providers. But we ran a very close second to one of America's strongest and most aggressive smaller ambulance firms—Mercy of Grand Rapids, Michigan.

A properly conducted public utility model procurement is the Super Bowl, the Grand Nationals, the Olympics of paramedic provider competition. That competition takes place in stages, starting with approximately 40 companies from coast to coast, border to border. The performance requirements, the risk and sometimes the caliber of competitors scare off many. Those remaining go through the industry's most stringent evaluation of organizational credentials, and some drop out voluntarily. Others are excluded from competition because they may lack analogous experience or financial stability, or for other reasons. In the final round, you're down to the most qualified and competitive providers

in the industry, all bidding to perform identical services in accordance with performance standards thoroughly specified by the buyer, and price alone determines the final outcome. The fact that we made it to the finals at all was, I think, nearly a miracle. The fact that we finished an extremely close second in this type of competition makes us proud. We went for the gold medal, but we had to settle for silver.

One Chief's Opinion

What does it all mean? We sensed that we were part of something important. It was an adventure we will never forget. I don't like to lose, but Mercy's win was fair and well deserved, and I am thankful for the opportunity to compete. I believe our community and our workforce, in the long run, will benefit from the addition of Mercy's expertise.

But the nagging question remains: Should a fire department, or any government agency for that matter, be in the ambulance service business? The answer is that it depends. If the community establishes a system structure that, safely and reliably, can reap the benefits of private sector ambulance service, then I see no reason for government-operated service. *However, the administrative sophistication for effectively dealing with private ambulance companies is not wide spread, and until it is, I believe government operated ambulance services should continue to serve.*

But another question remains. Should a government-operated ambulance service try to compete with the industry's best private providers, as we did? Before I answer that, let us stipulate that such competition is not only possible, but, using special accounting rules, was fairly and effectively accomplished in Fort Wayne. Let me also remind you that we elevated our own EMS department to a level of production capacity, quality of service, response time reliability and even economic efficiency that allowed us to rank by objective criteria among the very best in the industry.

Now for the bottom line. I am personally convinced that if our own EMS managers, dispatchers, street personnel and maintenance personnel had been structured as a private firm from the very beginning, these same people—this same combination of talent and dedication—would have made more progress faster, and would have won the final competition hands down. The experience was there, the talent was there, and the commitment was there. But to be completely honest, I must tell you that much of our progress was made *in spite of*—not because of—our governmental identity.

"Should a government-operated ambulance service try to compete with the industry's private providers?"

I believe there are very few advantages, if any, to operating a business from within the confines of governmental status.

When an intelligent and dedicated group of government employees attempts to compete head-on in fair-and-square competition with equally intelligent and dedicated private sector representatives, those in government, in order to win, must overcome the same obstacles that confront the private competitors, *plus* the additional constraints of public sector administration, budgeting, purchasing, labor relations, debt financing, etc.!

While it can be done, as we have proven, I must wonder why it should be done. By the time this article is in print, most of the EMS managers and field personnel who participated in this grand experiment will be members of the private sector, some working here and some having been recruited by other private firms throughout the nation. Reincarnated in the private sector, these same individuals will have a far greater opportunity to grow, develop and pursue an expanded career—an opportunity we could never have duplicated within the halls of local government. □

The CFO and EMS

by Frank Heyman
City Controller,
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In the summer of 1980, the paths of the Chief Financial Officer (CFO) and EMS crossed in Fort Wayne.

City governments are conglomerates of 40 or 50 relatively unrelated subsidary businesses. One subsidiary does highway construction, another provides security services, another supplies water, another runs an airport, another is an engineering company. The only common thread among these varied operations is that for various historical reasons, some logical and some not, the city has decided to operate these services in-house, instead of contracting for these services or simply letting the chips fall in the open marketplace.

Each year at budget time, one or two of these departments bubble to the surface needing special attention. In 1980 that department was Fort Wayne's EMS, a separate department under the control of the fire chief. We were faced with many problems: dilapidated ambulances, very unhappy employees, bad response times, growing criticism by the medical community, a tax freeze, lack of coordination with the existing private sector ambulance providers. The catalog of critical problems could go on and on.

As a newly elected administration, having been in office less than six months, we were a band of brash, optimistic managers who felt no task could elude our tackle. And anyhow, just how hard could it be to run ambulances? We would soon find out.

Simple Problems, Simple Solutions?

We began our examination of the EMS department. Falling deep into the pit of oversimplification, we made two quick and rudimentary observations. First, the city had always provided "free" emergency service. Secondly, like any other problem, could not all of our EMS troubles be solved by a simple injection of additional money? The solution appeared ridiculously simple: start charging fees and use the revenues to finance service improvements.

Armed with our obviously correct solution, we developed a new department budget for presentation to city council. Instead of a $750,000 budget (the level for 1979), we now had a $1.1 million budget with approximately $850,000 of tax money

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involved. The remaining $300,000 would come from the $40 fee charged to those 8,000 people who were transported annually by our service, even allowing for uncollectables.

We presented the city council with this brilliant financial analysis and a promise of permanent EMS system repair. Much to our shock, a skeptical city council questioned, why should the city be in the business of EMS anyway? Couldn't the private sector obviously do it better? How did we know that the $40 fee was the right amount? Without a change in system structure, how would $40 per run solve the problems of coordination, morale, response time? What was going to prevent the same crisis from occurring two or three years down the road?

The Bubble Bursts

Being very persuasive (and possibly sidestepping some difficult questions), we concluded those 1980 budget hearings with passage of our city's first conditional departmental budget. The council said that we could go ahead with the budget as presented, but only *if* we came back before the end of the calendar year with a complete analysis to support our proposed solutions. How do you do that in city government? Simple, read the literature on the subject, check with other cities, and then bring in a "national expert" to verify your original position with the "expert's" stamp of approval.

We set out to do just that. One system seemed to be getting the most coverage from a management perspective. The public utility model operating in Tulsa and, at that time, in its infancy in Kansas City, appeared to offer the closest thing to a right solution. So with a quick phone call to Jack Stout, author of the public utility model concept, we were off on our odyssey to prove our own point.

Instead of receiving our desired endorsement, we quickly found that if we were lucky enough to get an ambulance to the patient our medics had a fighting chance of applying their trade pretty well. Beyond that, our system's performance, both operational and financial, was no public service bargain. In just six days we could see clearly that our system's very structure was seriously flawed and, regardless of funding levels, could never approach the performance or efficiency of systems of superior design.

Having figured out what the real problem was, we had a choice. Should we completely remake the system and do it right (which meant admitting our original ignorance plus an awful lot of work) or should we stick to our original plan as presented during the summer budget process? Hooked on the prospect of real progress, and perhaps without fully understanding the size of the task at hand, we decided to redo the whole system and do it right.

Doing It Right

Doing it right in our case meant meeting six fundamental goals: Produce a system with externally evaluated clinical standards (both emergency and nonemergency care) equal to any system in America; take the system out of politics; achieve both efficiency and financial stability independent of fluctuations in local tax subsidy; run the system in-house, under the direction of Fire Chief Tony Meyers, as a "third service"—a "business"; prepare to face a test of fair competition from the best of America's private providers (see "Interface" column, "Showdown in Fort Wayne," *jems*, August 1983); and arrange commercial financing of the entire system upgrade.

jems has previously carried accounts of the changes within Fort Wayne's EMS Department (see "Interface column, "It's Hard to be Afraid," October 1983). Suffice it to say that we have concluded our infancy. This system has been installed successfully, and all six of our basic objectives have been achieved.

Comparing Total System Costs

From the CFO's perspective, three truly fascinating facts have emerged. First is the whole question of "cost" of an ambulance service to the community. How much does the local government put into the system from tax monies? This is what reporters focus on; that is what city councils apparently care most about. But local tax subsidy is only the tip of the iceberg.

Prior to installing our new system, Fort Wayne citizens were supporting not only the city's emergency service, costing approximately $850,000, but also three private ambulance companies. In 1980 these three companies were averaging $500,000 in net revenues each. Therefore, a more accurate "cost" of the previous system was approximately $2.3

million annually in 1980 dollars. Today the *total* system costs approximately $2 million in 1984 dollars. The service has improved dramatically, and the local tax subsidy has dropped to $300,000 a year.

Explaining how all of this could happen would take far more space than is available here. However, there are some clues. Under the old system, someone was actually paying for the service two and three times. They paid for it through their local taxes, they paid for it through their federal taxes which supported medicare and medicaid funding, they paid for it through insurance premiums, and they paid fees. Also, the old system evolved to allow four complete sets of overhead as part of the "cost" of the system (three private operators and the city's third service). Eliminating excess overhead and maximizing third-party payments reduced total cost and increased the efficiency of the system by a combination of improved economies of scale and diversion of cash flow from overhead to street-level production.

Balance of Payments

A second fact is really more of a theory. It is probable that the system pays for itself simply on a "balance of payments" basis. Under the old system, most of the system's revenue was generated from the local Fort Wayne economy. Under the new system, by maximizing third-party payments, a major increase has been realized in the volume of dollars flowing into the Fort Wayne economy from outside its geographic boundaries. If that number could be isolated and the economists' standard balance of payments multiplier effect applied, it would only take some $600,000 of outside "new" money to completely cover the cost of the new system.

Health Care Finance

The third major financial fact which came to light was that modern prehospital care is not a traditional government service. It is, in fact, an integral part of the American health care industry. As such, it is most effectively financed in the same way other health care providers (doctors, hospitals, etc.) are financed. Local tax subsidy is the last source of money that makes any sense in an ambulance service system, particularly a multijurisdictional system like ours. (We also serve the unsubsidized areas of rural Allen County, though at a higher fee to offset the difference in subsidies.)

When the paths of the CFO and the EMS cross, both may come out changed. The EMS system must be designed with an understanding of the complex economies of the American prehospital care industry. The CFO must understand there are no quick fixes to a department as important and complex as EMS. And finally, local governments must understand that they do have an inescapable and crucial role in determining the quality of prehospital care in the community, whether or not the city chooses to subsidize service. Ultimately the citizens are the ones we all serve. It is our job to see that they are served well. □