CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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July 11, 2013

TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: July 17, 2013 Budget and Finance Sub-Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution (File 13-0497) would approve the award of a sole-source contract to perform emergency repair work in accordance with Administrative Code Section 6.60 to replace unsound roofs on Digesters #4, #6, #7, #8, and #10 and two biosolids storage cake bins at the Southeast Water Pollution Control Plant (SEP), in an amount not to exceed $9,000,000.

Key Points

- On November 26, 2012, the President of the PUC authorized an emergency declaration to repair the roof of another digester (Digester #2) at the SEP, after engineers discovered large amounts of sludge had damaged the roof. These repairs were completed in March of 2013. The Monterey Mechanical Company was awarded a contract by the PUC on a sole-source basis to perform the emergency repairs.
- On March 11, 2013, the President of the PUC issued another emergency declaration, this time to repair Digesters #4, #6, #7, #8, and #10 at the SEP, as well as two biosolids (human waste) storage cake bins. Again, the Monterey Mechanical Company was awarded a contract by the PUC on a sole-source basis to perform the emergency repairs.

Fiscal Impact

- The proposed resolution authorizes an award in an amount not exceed $9,000,000, including an estimated $8,250,000 to repair the five digesters and $750,000 to repair the two biosolids storage cake bins at the SEP.
- The PUC has not submitted a separate emergency resolution to cover the $1,335,427 cost of the emergency repairs to Digester #2 at the SEP.

Policy Considerations

- The SEP requires at least eight digesters to fully handle the City's wastewater treatment needs. One digester was destroyed during a roof collapse in 1997, and has never been replaced. As a result, the PUC has maintained only nine digesters for the last 16 years. Lack of planning to repair the SEP digesters on an ongoing basis appears to have resulted in the multiple subject emergency declarations and resulting sole source emergency contracts.

Recommendations

- On July 10, 2013, the Budget and Finance Committee amended the proposed resolution to authorize the PUC's Wastewater Enterprise to increase the authorized not-to-exceed emergency contract amount with the Monterey Mechanical Company by $1,335,427 from a not-to-exceed $9,000,000 to a not to exceed $10,335,427 for the repairs of a total of six digesters and two storage cake bins.
- Approve the amended resolution, as previously amended.

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

In accordance with Administrative Code Section 6.60, an emergency contract awarded by a City department that exceeds $250,000 requires approval by the Board of Supervisors. Administrative Code provisions also authorize department heads responsible for such emergency work to award and proceed with emergency contracts, which are not subject to the City's regular competitive bidding procedures. The Administrative Code defines an emergency as a sudden, unforeseeable and unexpected occurrence or a discovery of a condition involving a clear and imminent danger, demanding immediate action to prevent or mitigate loss or damage to, life, health, property or essential public services.

Background

Southeast Water Pollution Control Plant (SEP)

The Southeast Water Pollution Control Plant (SEP), located at 750 Phelps Street in Bayview-Hunters Point, is a critical part of the Public Utilities Commission's (PUC) wastewater treatment system, as the SEP handles approximately two-thirds of the City's wastewater, before being released into the Bay.

According to the San Francisco Sewer System Master Plan issued by the PUC in 2010, the SEP was constructed in 1951, significantly upgraded in 1982, but has now outlived its operational usefulness and is in critical need of replacement. The entire plant is slated to be replaced under the PUC's proposed Biosolids Digester Facilities Projects (BDFP), which is anticipated to commence in 2018, at an estimated cost of $1.186 billion. Just like the current SEP, the new BDFP will take wastewater and human waste and break it down into its least harmful components. Solid waste will be separated, with "grit" being disposed of in a landfill and organic waste converted into fertilizer for commercial use. The water separated from this waste will be treated and then released into the Bay. Gases that arise from breaking down the organic waste will be captured and used to power about one-half of the facility's energy needs.

Emergency Repairs at Digester #2

The SEP contains ten digesters, which are large storage tanks that are used to break down organic materials in the wastewater and then remove the bacteria that may pose a health risk to the public. According to PUC Senior Project Manager Jignesh Desai, Digester #5 was destroyed during a roof collapse in 1997, and has never been replaced. As a result, the PUC can only operate nine digesters at the SEP. According to Mr. Tommy Moala, Assistant General Manager of the PUC's Wastewater Enterprise, the SEP requires at least eight digesters for the plant to fully handle the City's wastewater treatment needs.

On November 26, 2012, engineers at the SEP noticed that the roof of one of the digesters (Digester #2) was corroded and that sludge[1] had accumulated on one side of the roof of the digester. The accumulation of sludge caused significant structural damage to the roof, causing it to warp and tilt to the side. Digester #2 was shut down and placed out-of-service in order to prevent the entire structure from collapsing. On November 27, 2012, the President of the PUC authorized an emergency declaration to repair the roof of Digester #2 at the SEP.

According to Mr. Moala, at the time Digester #2 was shutdown, there was one additional digester (Digester #3) at the SEP that had not been operational since August 14, 2012. At the time, the PUC was repairing Digester #3 under a previous work order contract with Southwest Construction Consultants. As a result, when Digester #2 was shut down, the SEP had only seven functioning digesters. According to Mr. Desai, seven digesters can only be used to temporarily handle the City's wastewater treatment needs. Mr. Desai advises that the repairs to Digester #3 were completed in June of 2013, returning eight digesters to full operation.

The repairs to Digester #2 were initially estimated to cost $1,000,000. According to Mr. Carlos Jacobo, Budget Director for the PUC, the emergency repairs to Digester #2 began on November 28, 2012 and were completed by the Monterey Mechanical Company in March of 2013. The Monterey Mechanical Company was awarded a contract by the PUC on a sole-source basis to perform the emergency repairs because workers from this firm were already on-site at the SEP repairing corrosion damage at a neighboring dewatering facility[2]. While initially estimated to cost $1,000,000, the repairs to Digester #2 ended up costing a total of $1,335,427, which was $335,427 or approximately 34% more than the initial estimate.

Emergency Repairs at Five Digesters and Two Cake Bins

On March 11, 2013, the President of the PUC issued another emergency declaration, this time to repair Digesters #4, #6, #7, #8, and #10 at the SEP, as well as two biosolids (human waste) storage cake bins, which are large structures that hold dry waste until the dry waste can be picked up and used for fertilizer and other commercial uses.

In a memorandum from Mr. Moala to Mr. Art Torres, President of the PUC, Mr. Moala stated that these digesters and storage bins are "on the verge of catastrophic failure" due to corrosion on the roofs of five digesters (similar to those at Digester #2) and "severe corrosion" at the two storage cake bins. In addition, the PUC believes that the SEP is at great risk of violating State and Federal health and environmental regulations as a result of these corrosions. Mr. Moala also notes in his memorandum that the PUC Wastewater Enterprise has already received two permit violation notices from the Bay Area Air Quality Management District (BAAQMD) due to odors emanating from leaks in the storage cake bins and reaching residents in surrounding neighborhoods.

[1] Sludge refers to the semi-solid waste that must be treated and decontaminated before leaving the plant. Digesters act as a settling tank where sludge is exposed to bacteria and slowly broken down into less harmful parts, which are either landfilled or converted into fertilizer.

[2] A dewatering facility helps thicken sludge to reduce the amount that needs to be disposed. The water that remains is then treated and released into the Bay.

According to Mr. Jacobo, the Monterey Mechanical Company was again awarded a contract on a sole-source basis by the PUC to complete this SEP emergency work on Digesters #4, #6, #7, #8 and #10 and at the two storage cake bins, because (a) of the company's familiarity with the digesters and cake bins at the SEP, and (b) that the Company had recently completed successful repairs to Digester #2. On April 9, 2013, the Monterey Mechanical Company began making such emergency repairs on the remaining five digesters and two storage cake bins (beginning with Digester #8) under a contract not-to-exceed $9,000,000.

According to Mr. Jignesh Desai, Senior Project Manager at the PUC, as of July 1, 2013, the Monterey Mechanical Company had completed removing 1.5 million gallons of undigested sludge and welded new metal plates onto the corroded area of the roof. According to Mr. Jacobo, the repairs to these five digesters and two storage cake bins are estimated to be completed in September, 2015. According to Mr. Moala, only one or two digesters can be repaired at a time, given the demand to keep multiple digesters operational to handle the City's wastewater treatment needs.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the award of a sole-source contract to perform emergency repair work in accordance with Administrative Code Section 6.60 to replace the unsound roofs on five digesters, Digesters #4, #6, #7, #8, and #10 (not including the repairs at Digester #2) and the two biosolids storage cake bins at the Southeast Water Pollution Control Plant (SEP), in an amount not to exceed $9,000,000.

FISCAL IMPACTS

Table 1 below contains an estimated expenditure schedule for completion of the requested emergency work to replace the roofs on the five digesters and two biosolids storage cake bins at a not to exceed cost of $9,000,000.

Table 1: Estimated Expenditure Schedule for Digester and Cake Bin Repairs at the Southeast Water Pollution Control Plan

	April 2013 - Sept 2013	Oct 2013 - Mar 2014	April 2013 - Sept 2014	Oct 2014 - Mar 2015	April 2013 - Sept 2015	Total
Digester 8	$1,050,000					$1,050,000
Digester 4		$1,800,000				$1,800,000
Digester 6			$1,800,000			$1,800,000
Digester 7				$1,800,000		$1,800,000
Digester 10					$1,800,000	$1,800,000
Subtotal						**$8,250,000**
Cake Bins 3 & 4		**$750,000**				**$750,000**
Total	**$1,050,000**	**$2,550,000**	**$1,800,000**	**$1,800,000**	**$1,800,000**	**$9,000,000**

As shown in Table 1 above, the PUC estimates the cost to repair the five digesters will be $8,250,000 and the two biosolids storage cake bins will be $750,000, or a total estimated cost of $9,000,000. The proposed resolution would approve the subject emergency contract in accordance with Administrative Code Section 6.60 for the needed emergency repair work to replace the five digesters and two biosolids cake bins at the SEP for a not to exceed amount of $9,000,000.

POLICY CONSIDERATIONS

Inadequate Planning by the PUC Leading up to the Emergency Work Order

As noted above, Digester #5 was destroyed during a roof collapse in 1997. The PUC stated that Digester #5 was never replaced because of (a) budgetary pressures from the voter-approved water and sewer rate freeze passed in 1998, and (b) the PUC was optimistic that the SEP would be entirely replaced shortly after Digester #5 collapsed in 1997. The PUC is only now planning the replacement of the SEP, called the Biosolids Digester Facilities Project (BDFP) at an estimated cost of $1.186 billion, which is not anticipated to be fully operational until August of 2023.There is a proposed resolution (File 13-0589) on the July 10, 2013 Budget and Finance Committee calendar authorizing the General Manager of the PUC to enter into a not-to-exceed $80,000,000 agreement for ten years, from July 29, 2013 through July 28, 2023 with Brown and Caldwell, Inc. for planning and engineering services related to the construction of the BDFP for replacement of the Southeast Water Pollution Control Plant (SEP). As a result, the PUC has maintained only nine digesters at the SEP since 1997, or for the last 16 years. With only nine available digesters and a requirement that eight always be operational, since 1997 the PUC has been operating within a very thin margin of error in terms of wastewater safety at the SEP. In addition, as noted above, at the time Digester #2 was shut down on November 26, 2012, there was one additional digester (Digester #3) at the SEP that had not been operational since August 14, 2012. Such lack of planning to repair the SEP digesters on an ongoing basis appears to have resulted in the multiple subject emergency declarations and resulting sole source emergency contracts.

Proposed Resolution Does Not Cover the Total Cost of Executed Contracts

The proposed resolution did not include the emergency repairs to the SEP’s Digester #2, which as discussed above, were also completed under a sole-source emergency contract with the Monterey Mechanical Company in March of 2013 at a cost of $1,335,427. According to Mr. Jacobo, a separate emergency resolution has not been submitted to the Board of Supervisors for approval for the emergency repairs to Digester #2.

In accordance with the City’s Administrative Code Section 6.60, an emergency contract awarded by a City department that exceeds $250,000 requires approval by the Board of Supervisors.

Therefore, on July 10, 2013, the Budget and Finance Committee amended the proposed resolution to repair six digesters instead of five at the Southeast Water Pollution Control Plant and to increase the not-to-exceed amount of $9,000,000 to repair six digesters and two biosolids cake bins by $1,335,427 to a not-to-exceed amount of $10,335,427, in order to account for the $1,335,427 previously expended to repair Digester #2.

RECOMMENDATIONS

1. On July 10, 2013, the Budget and Finance Committee amended the proposed resolution to authorize the PUC's Wastewater Enterprise to increase the authorized not-to-exceed emergency contract amount with the Monterey Mechanical Company by $1,335,427 from a not-to-exceed $9,000,000 to a not to exceed $10,335,427 for the repairs of a total of six digesters (instead of five digesters) and two storage cake bins.

2. Approve the proposed resolution, as previously amended.

Item 2 **File 13-0517** ***(continued from July 10, 2013)***	**Department:** **Public Utilities Commission (PUC)**

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an emergency contract under Administrative Code Section 6.60 to Shimmick Construction Company, Inc. to perform necessary repairs and rehabilitation of the existing North Shore Force Main in an amount not-to-exceed $7,000,000.

Key Points

- On March 20, 2012, corrosion and joint separation in the North Shore Force Main caused sewage overflow onto the roadway near The Embarcadero and Mission Street intersection. On March 22, 2012, the Public Utilities Commission (PUC) declared an emergency for this immediate repair and retained Cal State Constructors, Inc., with whom PUC had an existing contract. Cal State Constructors, Inc. completed this work on April 23, 2012, for a total cost of $575,529.

- On June 12, 2012, the PUC issued a second emergency declaration for the immediate repair of additional leaks detected in segments of the North Shore Force Main under The Embarcadero between Jackson and Howard Streets.

- On June 18, 2012, Shimmick Construction Company, Inc. submitted a bid for $4,140,500; and the PUC approved a not to exceed contract for $4,200,000 on July 23, 2012. As of July 2, 2013, all repairs have been completed, except for minor sidewalk restoration work on The Embarcadero.

Fiscal Impacts

- The total project costs of not-to-exceed $7,000,000 are $2,800,000 or 67% more than the original not-to-exceed $4,200,000 contract with Shimmick Construction Company, Inc. To date, Shimmick Construction Company, Inc. has incurred expenditures totaling $4,480,128 and the PUC estimates additional expenditures of $2,519,872, for a total of $7,000,000.
- All expenses will be funded from PUC's capital budget, funded through the wastewater ratepayers.

Recommendations

- On July 10, 2013, the Budget and Finance Committee amended the proposed resolution to (a) reflect the actual cost for the original emergency work from $600,000 to $575,529 and (b) increase the requested emergency authorization by $575,529 from $7,000,000 to $7,575,529, in order to include the initial emergency North Shore Force Main repairs that have already been incurred near The Embarcadero and Mission Street intersection.
- Approve the proposed resolution, as previously amended.

MANDATE STATEMENT/BACKGROUND

Mandate Statement

In accordance with Administrative Code Section 6.60, an emergency contract awarded by a City department that exceeds $250,000 requires approval by the Board of Supervisors. Administrative Code provisions also authorize department heads responsible for such emergency work to award and proceed with emergency contracts, which are not subject to the City's regular competitive bidding procedures. The Administrative Code defines an emergency as a sudden, unforeseeable and unexpected occurrence or a discovery of a condition involving a clear and imminent danger, demanding immediate action to prevent or mitigate loss or damage to, life, health, property or essential public services.

Background

San Francisco has three major force mains:[1] North Shore, Channel, and Westside. The North Shore Force Main is a 36-inch diameter sewer pipe that carries approximately 20% of the City's sewer flow from the North Shore Drainage Basin in the northeast portion of San Francisco to the Southeast Water Pollution Control Plant for wastewater treatment. The North Shore Force Main ends at the intersection of Stuart and Howard Streets and is 7,700 feet long. None of the three major force mains currently have redundancies.[2] Thus, if any force main is taken out of service for an extended period of time, untreated sewage could overflow into the San Francisco Bay.

On March 20, 2012, the North Shore Force Main failed due to corrosion and joint separation,[3] causing sewage to flow onto the roadway surface near The Embarcadero and Mission Street intersection and requiring the North Shore Force Main to be operated at a substantially reduced capacity.

On March 22, 2012, the PUC declared an emergency for the immediate repair of the North Shore Force Main leak and, in accordance with Administrative Code Section 6.60, awarded a sole-source contract to Cal State Constructors, Inc., with whom PUC had an existing contract for repairs. According to Ms. Bessie Tam, PUC Project Manager, Cal State Constructors, Inc. provided an estimate of $463,825 prior to beginning their work based on the assumption that only one leak near Mission Street existed. According to Ms. Tam, PUC did not request approval from the Board of Supervisors for this initial emergency contract work.

On April 6, 2012, Cal State Constructors, Inc. began repairs on the North Shore Force Main near The Embarcadero and Mission Street intersection. Work was completed on weekends and in the evenings, such that the North Shore Force Main was taken out of service for 24-hours at a time during actual repairs. When not being repaired, the North Shore Force Main was operating

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[1] A Force Main is a pressurized main pipe that can carry water, sewage, and other materials.

[2] Prior to the subject emergency, PUC initiated a new capital project to provide redundancy to the North Shore Force Main. On April 24, 2012, the PUC approved the award of a $15,488,000 contract to KJ Woods Construction, Inc. to build a redundant force main to the North Shore Force Main, which is expected to be completed at the end of 2013 or early 2014. After the redundant force main is completed, flow can be diverted to the new force main and the existing force main can be taken out of service for complete inspections and repairs.

[3] Pipes are installed in sections and joined together. For example, a pipeline that is 1,000-feet long is made up of 50-foot pieces. Each 50-foot piece is joined together at "joint" locations. Joint separations are separations at the joints between each section of pipe, which would allow the material inside the pipe to leak out.

at a reduced capacity. This emergency repair work was completed on April 23, 2012. On June 25, 2012, the PUC received an invoice from Cal State Constructors, Inc. for $575,529. According to Ms. Tam, the discrepancy between Cal State Constructors, Inc.'s initial estimate of $463,825 and the actual expenditures of $575,529 that has now been paid to Cal State Constructors, Inc. was due to additional costs required to install seals at multiple leaks found by Cal State Constructors, Inc. inside the North Shore Force Main.

The proposed resolution states on Page 1, line 9 that this emergency contract with Cal State Constructors, Inc. cost a total of $600,000. On July 10, 2013, the Budget and Finance Committee amended the proposed resolution to reflect the actual total cost of $575,529.

On April 23, 2012, the PUC began to conduct additional dye tests to determine the sources of the various leaks in the North Shore Force Main. According to Ms. Tam, it took approximately six weeks to schedule the leak tests, await the laboratory results, then analyze and evaluate the results to conclude that additional leaks existed along the entire length of the pipe.

On June 4, 2012, PUC's Wastewater Enterprise determined a need for a second emergency declaration for the immediate repair of additional leaks detected in segments of the North Shore Force Main under The Embarcadero between Jackson Street and Howard Street. Ms. Tam advises that the remaining repairs of the North Shore Force Main, estimated to cost $7,000,000, were based on PUC's preliminary estimates, together with the Department of Public Works (DPW) estimates. On June 12, 2012, the PUC officially declared this second emergency.

PUC requested proposals from two contractors for design and construction of a new pipe inside the existing pipe (a method called "lining") for approximately 3,000-feet of the North Shore Force Main. Ms. Tam stated that although emergency contracts are exempt from the City's regular bidding process, the PUC nonetheless requested qualifications and construction estimates from two qualified contractors who had performed similar types of work for the PUC.

On June 18, 2012, (a) Shimmick Construction Company, Inc. submitted a bid for $4,140,500 and (b) NTK Construction, Inc. submitted a bid for $4,000,000. According to Ms. Tam, Shimmick Construction Company, Inc. was selected because of their prior experience in addressing emergency construction contracts and because of their having more qualified staff resources available to perform the needed repair work.

On July 23, 2012, the PUC issued a notice to proceed to Shimmick Construction Company, Inc. for a not to exceed $4,200,000. According to Ms. Tam, Shimmick Construction Company, Inc. immediately identified substantial differences between the assumed and actual site conditions, including finding an abandoned underground storage tank, unidentified utilities, and old wharfs under The Embarcadero, which required additional work from the contractor to remove or support these items prior to construction. This resulted in an additional cost of $2,800,000, over the $4,200,000 not previously anticipated, for a total cost of $7,000,000.

According to Ms. Tam, all of the repairs were anticipated to be completed by July 1, 2013. However, as of July 2, 2013, some minor sidewalk restoration work on The Embarcadero still requires completion pending material delivery.

DETAILS OF PROPOSED LEGISLATION

Based on a declaration of emergency by the PUC on June 12, 2012, the proposed resolution would approve an emergency contract awarded by the PUC to Shimmick Construction Company, Inc. to perform the necessary repairs and rehabilitation of the North Shore Force Main for a total contract amount not to exceed $7,000,000.

Previously, on March 22, 2012, the PUC declared a separate emergency to allow immediate repair of a leak in the North Shore Force Main detected at the intersection of The Embarcadero and Mission Street. The emergency work was successfully performed by Cal State Constructors, Inc. at a total cost of $575,529.

Subsequent dye-testing work on the North Shore Force Main showed that additional leaks were occurring along the entire length of the North Shore Force Main on The Embarcadero between Jackson Street and Howard Street. Therefore, on June 12, 2012, the PUC declared a second emergency for the construction of a new pipe in the North Shore Force Main along The Embarcadero. The PUC subsequently selected Shimmick Construction Company, Inc. to perform the emergency work with an initial contract award of $4,200,000. Under Administrative Code Section 6.60, an emergency contract awarded by a City department that exceeds $250,000 requires approval by the Board of Supervisors. As previously noted, the current contract costs are estimated to total $7,000,000.

FISCAL IMPACTS

According to Ms. Tam, as of January 25, 2013, Shimmick Construction Company, Inc. had submitted invoices to SFPUC totaling $4,480,128, which have now been fully paid.

In addition, Ms. Tam advises that Shimmick Construction Company, Inc. presently estimates additional expenditures of $2,519,872 ($1,500,000 for labor and $1,019,872 for equipment and materials) to complete the emergency work, for a total estimated cost of $7,000,000, as shown in the Table below.

Actual Expenditures to Date and Estimated Future Expenditures

Item	Actual invoices to date	Estimated additional Expenditures to be incurred	Total Estimated Expenditures
Total	$4,480,128	$2,519,872	$7,000,000

The total estimated project costs of not-to-exceed $7,000,000 are $2,800,000 or 67% more than the original not-to-exceed $4,200,000 contract with Shimmick Construction Company, Inc. However, Ms. Tam explains that this cost increase is justified because Shimmick Construction Company, Inc. encountered additional costs due to unanticipated site conditions, traffic and operational restrictions, weather impacts, and time delays. Ms. Tam also advises that the actual cost to be incurred by Shimmick Construction Company, Inc. is closer to the original preliminary $7,000,000 estimate by DPW engineers and PUC management at the time of the emergency declaration.

Ms. Tam advises that all of these emergency repair costs have been and will be paid from the 2013 Wastewater Revenue Bonds, which were issued for the costs of planning, design, construction, and improvements of various capital improvement projects and is funded through the wastewater ratepayers.

The proposed resolution had not included a request for approval of the original emergency repairs to the North Shore Force Main near The Embarcadero and Mission Street Intersection, which as discussed above, were completed under a sole-source emergency contract with Cal State Constructors, Inc., on April 23, 2012, at a cost of $575,529. According to Ms. Tam, a separate emergency resolution has not been submitted to the Board of Supervisors for approval of such emergency repairs. In accordance with the City's Administrative Code Section 6.60, an emergency contract awarded by a City department that exceeds $250,000 requires approval by the Board of Supervisors. Therefore, on July 10, 2013, the Budget and Finance Committee amended the proposed resolution from a not-to-exceed amount of $7,000,000 which reflects the total costs to be incurred under the PUC's second emergency declaration to a not-to-exceed of $7,575,529 in order to reflect the $575,529 costs of the original emergency repairs of the North Shore Force Main.

RECOMMENDATIONS

1. On July 10, 2013, the Budget and Finance Committee amended the proposed resolution to (a) reflect the actual cost for the original emergency work from $600,000 to $575,529 and (b) increase the requested emergency authorization by $575,529 from $7,000,000 to $7,575,529, in order to include the initial emergency North Shore Force Main repairs that have already been incurred near The Embarcadero and Mission Street intersection.

2. Approve the proposed resolution, as previously amended.

Item 3 File 13-0511	Department: Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Department of Public Health (DPH) to enter into the second amendment to the agreement with HealthRIGHT 360 to provide mental health and substance abuse care services in the San Francisco County Jail system.

Key Points

- DPH entered into the original agreement with Haight Ashbury Free Clinics in an amount not-to-exceed $7,147,862, and a two-year term from July 1, 2010 through June 30, 2012. DPH entered into the first amendment in March 2012, increasing the not-to-exceed amount to $9,999,000 and extending the term to December 31, 2015. The original agreement and first amendment were not subject to Board of Supervisors approval because they were for less than $10,000,000 and ten years. Haight Ashbury Free Clinics subsequently combined with Walden House to form a new entity called HealthRight 360.
- The proposed resolution would approve the second amendment and the extension of the agreement term through December 31, 2015, for a total contract term of five and one half years.
- The proposed resolution would also approve the increase in the agreement's not-to-exceed amount by $9,130,695 from $9,999,000 to $19,129,695.

Fiscal Impacts

- Because the not-to-exceed amount under the proposed second amendment exceeds the needed amount by $658,288, the Budget and Legislative Analyst recommends reducing the agreement not-to-exceed amount by $658,288, from $19,129,695 to $18,471,407.

Recommendations

- Amend the proposed resolution to add to state: "Further Resolved, that the Board of Supervisors hereby authorizes the Director of Health and the Director of the Office of Contract Administration/Purchaser to make amendments to these contracts, as needed <u>that do not materially increase the obligations or liabilities of the City</u> (revised language underlined)".
- Amend the proposed resolution to (1) provide for retroactive approval of the proposed second amendment to July 1, 2012; and (2) reduce the not-to-exceed amount by $658,288, from $19,129,695 to $18,471,407.
- Approve the proposed resolution as amended.

MANDATE STATEMENT/ BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118(b), any contracts or agreements entered into by a department, board or commission requiring anticipated expenditures by the City and County of $10,000,000, or the modification of amendments to such contract or agreement having an impact of more than $500,000 shall be subject to approval of the Board of Supervisors by resolution.

Background

Original Agreement with Haight Ashbury Free Clinics

The Department of Public Health (DPH) entered into the original agreement with Haight Ashbury Free Clinics, a non-profit agency, in July 2010 to provide jail mental health and substance abuse services, based on a competitive Request for Proposal (RFP) process. The original agreement was for a not-to-exceed amount of $7,147,862, which included $6,382,020 for direct services and a 12 percent contingency of $765,842. The original term of the agreement was for two years, from July 1, 2010 through June 30, 2012, with three one-year options to extend the term through June 30, 2015.

Modifications to the Original Agreement with Haight Ashbury Free Clinics

DPH entered into the first amendment to the original agreement in March 20, 2012, to increase the not-to-exceed amount from $7,147,862 to $9,999,000, for a total increase of $2,851,138, and extend the term by 3 ½ years to December 31, 2015, or six months more than provided in the original agreement, for a total term of 5 ½ years. The original agreement and first amendment were not subject to Board of Supervisors approval because they were for less than $10,000,000 and less than ten years.

Haight Ashbury Free Clinics subsequently combined with Walden House to form a new entity called HealthRight 360. On June 28, 2012, DPH consented to assign the existing agreement with Haight Ashbury Free Clinics to HealthRIGHT 360.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize DPH to enter into the second amendment to the agreement with HealthRIGHT 360, a non-profit agency, to increase the agreement not-to-exceed amount by $9,130,695 from $9,999,000 to $19,129,695. The resolution would also approve the extension of the agreement by 3 ½ years, from July 1, 2012 to December 31, 2015, as previously contained in the first amendment.

Table 1 below shows the changes in term dates and not-to-exceed amounts as detailed in the original agreement and under each amendment. The proposed second amendment increases the agreement not-to-exceed amount by $9,130,695, from $9,999,000 to $19,129,695, including $17,763,873 in direct services and a 7.7 percent contingency of $1,365,822.

Table 1. Amendment History for HealthRIGHT 360 Agreement

Amendment No.	Resolution No.	Adoption/ Amendment Date	Agreement End-Date	Agreement Increase Amount	Revised Not-to-Exceed Amount
Original Agreement	*	July 1, 2010	June 30, 2012	-	$7,147,862
1	N/A	March 20, 2012	December 31, 2015	$2,851,138	$9,999,000
2	File 13-0511	July 1, 2013	December 31, 2015	$9,130,695	$19,129,695

*Original Agreement not subject to BOS approval because under $10,000,000.

The original agreement provided for three one-year options to extend the agreement through June 30, 2015, consistent with the competitive RFP. The proposed second amendment extends the agreement through December 31, 2015, or six months more than provided in the original agreement. According to Ms. Anne Okubo, DPH Deputy Finance Director, the six-month extension of the agreement from July 1, 2015 through December 31, 2015 is consistent with Administrative Code Section 21.42, which allows DPH to designate sole source, professional services contracts for health and behavioral health services provided by non-profit organizations, based on a survey of available providers and a determination that these services are unique to DPH, are consistent with DPH mission and goals, and require specialized knowledge. Ms. Okubo states that DPH did conduct this survey and HealthRight360 was designed as a sole source provider.

The proposed resolution states that "the Board of Supervisors hereby authorizes the Director of Health and the Director of the Office of Contract Administration/Purchaser to make amendments to these contracts, as needed". The Budget and Legislative Analyst recommends amending the proposed resolution to add the phrase, "that do not materially increase the obligations or liabilities of the City".

FISCAL IMPACTS

Under the proposed resolution, the not-to-exceed amount in the agreement between DPH and HealthRIGHT 360 will increase by $9,130,695, from $9,999,000 to $19,129,695.

Projected expenditures under the agreement from July 1, 2010 through June 30, 2013 are $8,983,820.[1] Because the not-to-exceed amount under the proposed second amendment exceeds the needed amount by $658,288, as shown in Table 2 below, the Budget and Legislative Analyst recommends reducing the agreement not-to-exceed amount by $658,288, from $19,129,695 to $18,471,407.

[1] Projected expenditures for June 2013 are based on actual expenditures in May 2013.

Table 2: Budget and Legislative Analyst's Recommended Reduction

Total Actual Expenditures as of June 30, 2013* Projected Expenditures July 1, 2013 to December 31, 2015 Contingency (12% of Expenditures July 1, 2013 to December 31, 2015) Cost of Living Adjustment (4.7%)	$8,983,820 8,129,895 975,587 382,105
Total Recommended Not-to-Exceed Amount	18,471,407
Proposed Contract Not-to-Exceed Amount	19,129,695
Proposed Reduction in Not-to-Exceed Amount	**$658,288**

* Based on data from May 2013.

RECOMMENDATIONS

1. Amend the proposed resolution to state: "Further Resolved, that the Board of Supervisors hereby authorizes the Director of Health and the Director of the Office of Contract Administration/Purchaser to make amendments to these contracts, as needed that do not materially increase the obligations or liabilities of the City (revised language underlined)".
2. Amend the proposed resolution to (1) provide for retroactive approval of the proposed second amendment to July 1, 2012; and (2) reduce the not-to-exceed amount by $658,288, from $19,129,695 to $18,471,407.
3. Approve the proposed resolution as amended.

Item 4 File 13-0512	Departments: Department of Public Health

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the third amendment to the contract between the Department of Public Health (DPH) and the West Bay Housing Corporation to provide rental subsidies to eligible individuals participating in DPH's Scattered Site Housing and Rental Subsidies Program to (1) extend the term from April 1, 2009 through June 30, 2018, or nine years and three months, and (2) increase the total contract amount by $16,480,867 from $9,569,430 to $26,050,297.

Key Points

- On November 3, 2008, DPH issued a Request for Proposals (RFP) to select a provider of housing for San Francisco City's Scattered Site Housing and Rental Subsidies Program. DPH received two submissions for the RFP and awarded a contract to the West Bay Housing Corporation on May 1, 2009.
- DPH has previously amended the contract with the West Bay Housing Corporation two times on July 1, 2010, and October 1, 2012. The Health Commission approved the third amendment to the contract on May 1, 2013. The three amendments have resulted in a total proposed not-to-exceed amount of $26,050,297 and a term of nine years and 3 months from April 1, 2009 through June 30, 2018.

Fiscal Impacts

- The proposed resolution would approve the third amendment to the existing contract between DPH and the West Bay Housing Corporation for not-to-exceed $26,050,297, including $24,189,141 in direct services and a contingency of $1,861,156. Because actual expenditures from April 1, 2009 through June 30, 2018 are $989,302 less than the contract not-to-exceed amount, the Budget and Legislative Analyst recommends reducing the not-to-exceed amount by $989,302, from $26,050,297 to $25,060,995.
- The contract is fully funded by the General Fund, except for $54,000. These funds are included in the DPH FY 2013-14 and FY 2014-15 budget, subject to Board of Supervisors approval.

Recommendations

- Amend the proposed resolution to state: "Further Resolved, that the Board of Supervisors hereby authorizes the Director of Health and the Director of the Office of Contract Administration/Purchaser to make amendments to these contracts, as needed <u>that do not materially increase the obligations or liabilities of the City</u> (revised language underlined)".
- Amend Page 1, Line 17 of the proposed resolution to reflect the correct increase of "five years."
- Amend the proposed resolution to (1) provide for retroactive approval of the third amendment to July 1, 2013; and (2) reduce the not-to-exceed amount by $989,302, from $26,050,297 to $25,060,995.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT/BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118(b), any contracts or agreements entered into by a department, board or commission requiring anticipated expenditures by the City and County of $10,000,000, or the modification of amendments to such contract or agreement having an impact of more than $500,000 shall be subject to approval of the Board of Supervisors by resolution.

Background

On November 3, 2008, the Department of Public Health (DPH) issued a Request for Proposals (RFP) to select a provider of housing for San Francisco City's Scattered Site Housing and Rental Subsidies Program.[1] The Scattered Site Housing and Rental Subsidies Program is for the purpose of identifying and securing rental units for individuals transitioning out of Laguna Honda Hospital and for persons considered at-risk of placement in a skilled nursing facility, but who wish to live in the community and are a part of the Chamber's Case Settlement class.[2]

DPH received two responses to the RFP from (1) West Bay Housing Corporation, a non-profit agency, and (2) Lightner Property Group, a for-profit agency. On May 1, 2009, the West Bay Housing Corporation (West Bay) was awarded the contract in a not-to-exceed amount of $2,191,240 with a term of one year and 3 months from April 1, 2009, through June 30, 2010.[3] According to Ms. Irene Carmona, DPH Chief of Contracts Management Unit, West Bay was selected as it had (1) an established history of Scattered Site Housing experience, (2) an established history of working with state and local government programs, (3) a demonstrated commitment to serving the target population, and (4) a demonstrated ability to place populations that other entities had not been able to place into housing.

[1] The deliverables of the contract are "housing subsidy months." A unit of service (UOS) includes placing and maintaining members of the Chamber's Case Settlement class (see below) in appropriate housing in the community. Specifically, a UOS includes, but is not limited to: (1) person-centered placement and planning, (2) outreach to the private real estate market, (3) unit identification and master-leasing, (4) rental subsidy administration, (5) property owner/program participant liaison, (6) unit repairs and modifications, (7) unit habitability and tenant wellness checks, (8) housing retention services, (9) on-call service capability/24-hour response, (10) 24-hour emergency services, and (11) service provider communication.

[2] The Chamber's Case Settlement pertains to *Chambers et al. v. City and County of San Francisco*, a civil rights class action filed to prevent unnecessary institutionalization of people with disabilities at Laguna Honda Hospital. The lawsuit was brought in the Northern District of California by six individual plaintiffs who are or were residents of Laguna Honda Hospital and the Independent Living Resource Center of San Francisco and settled on September 18, 2008. The agreement created a program to coordinate services across City departments, enabling San Franciscans with disabilities who live at or are referred to Laguna Honda Hospital to instead receive community-based housing and services. Eligible individuals will be assessed for, referred to, and provided with subsidized housing, attendant and nursing care, case management, substance abuse treatment, mental health services, and assistance with meals. Additionally, several hundred Medical Home and Community-Based waiver slots would be made available to those who qualified. The RFP was issued to select a provider for the rental subsidy program, through which San Francisco would secure and subsidize scattered-site, accessible, independent housing for approximately 500 people with disabilities and seniors who are eligible for community-based services.

[3] According to Ms. Margot Antonetty, DPH Housing & Urban Health Director of Programs, the client contributes 50% of their income and DPH subsidizes the rest of the costs to West Bay.

As shown in Table 1 below, DPH has amended the contract with West Bay three times, resulting in a total not-to-exceed amount of $26,050,297 and a term of nine years and 3 months from April 1, 2009 through June 30, 2018.

Table 1: Contract and Amendments

Amendment	Date of Amendment	Term	Years	Increase	Total
Original		April 9, 2009 - June 30, 2010	1.25	n/a	$2,191,240
1st	July 1, 2010	July 1, 2010 - June 30, 2012	2.00	$5,619,646	7,810,886
2nd	Oct 1, 2012	July 1, 2012- June 30, 2013	1.00	1,758,544	9,569,430
3rd (File 13-0512)*	May 1, 2013	July 1,2013 - June 30, 2018	5.00	16,480,867	26,050,297
Total			**9.25**	**$23,859,057**	**$26,050,297**

**Subject of this agreement*

DPH is requesting approval for the third amendment to the contract with West Bay to extend the term through June 30, 2018, and to increase the total contract not-to-exceed amount to $26,050,297.

According to Ms. Carmona, renewals for the first and second amendments were limited to one year as West Bay was a new vendor to DPH, and DPH was actively monitoring the contract to establish the rate of program expansion in terms of deliverables and budget. Ms. Carmona advises that DPH is satisfied with the services provided and now wishes to extend the contract term through June 30, 2018.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third amendment to the contract between the DPH and the West Bay Housing Corporation, a non-profit agency which provides rental subsidies to eligible individuals participating in DPH’s Scattered Site Housing and Rental Subsidies Program, to (1) extend the term retroactively from July 1, 2013 through June 30, 2018, or 5 years, and (2) increase the total contract amount by $16,480,867 from $9,569,430 to $26,050,297 (See Table 1).

The proposed resolution states that “the Board of Supervisors hereby authorizes the Director of Health and the Director of the Office of Contract Administration/Purchaser to make amendments to these contracts, as needed”. The Budget and Legislative Analyst recommends amending the proposed resolution to add the phrase, “that do not materially increase the obligations or liabilities of the City”.

FISCAL IMPACTS

The proposed resolution would approve the third amendment to the existing contract between DPH and West Bay Housing Corporation, a non-profit agency, for a not-to-exceed $26,050,297, including $24,189,141 in direct services and a 12% contingency of $1,861,156, as shown in Table 3 below. The contract is fully funded by the General Fund, except for $54,000.[4] These funds are included in the DPH FY 2013-14 and FY 2014-15 budget, as recommended for approval by the Budget and Finance Committee of the Board of Supervisors.

Table 3: Contract Not-to-Exceed Amount and Actual Expenditures

Year	Date	Not-to-Exceed Amount	Actual Expenditures	Difference
Start Up	April 1, 2009 - June 30, 2009	$200,000	$110,633	$89,367
Year 1	July 1, 2009 - June 30, 2010	1,345,464	1,345,464	0
Year 2	July 1, 2010 - June 30, 2011	2,221,638	1,762,337	459,301
Year 3	July 1, 2011 - June 30, 2012	2,124,830	2,118,417	6,413
Year 4	July 1, 2012- June 30, 2013	2,787,576	2,353,355	434,221
Subtotal (Start up to Year 4)		**8,679,508**	**7,690,206**	**989,302**
Year 5	July 1, 2013 - June 30, 2014	2,907,442		
Year 6	July 1, 2014 - June 30, 2015	2,931,915		
Year 7	July 1, 2015 - June 30, 2016	3,064,374		
Year 8	July 1, 2016 - June 30, 2017	3,216,413		
Year 9	July 1, 2017 - June 30, 2018	3,389,489		
Subtotal Direct Services (Start Up to Year 9)		**24,189,141**		
	Contingency (12% Year 5 through 9)	1,861,156		
Total		**$26,050,297**	**$7,690,206**	**$989,302**

Because actual contract expenditures from April 1, 2009 through June 30, 2013 are $989,302 less than the existing contract not-to-exceed amount as shown in Table 3 above, the Budget and Legislative Analyst recommends amending the proposed resolution to reduce the not-to-exceed amount by $989,302, from $26,050,297 to $25,060,995.

RECOMMENDATIONS

1. Amend the proposed resolution to state: "Further Resolved, that the Board of Supervisors hereby authorizes the Director of Health and the Director of the Office of Contract Administration/Purchaser to make amendments to these contracts, as needed that do not materially increase the obligations or liabilities of the City (revised language underlined)".
2. Amend Page 1, Line 17 of the proposed resolution to reflect the correct increase of "five years."

[4] Of the $26,050,297 not-to-exceed amount, $54,000 was funded by a federal Substance Abuse and Mental Health Services (SAMHSA) grant in FY 2009-10.

3. Amend the proposed resolution to (1) provide for retroactive approval of the third amendment to July 1, 2013; and (2) reduce the not-to-exceed amount by $989,302, from $26,050,297 to $25,060,995.
4. Approve the proposed resolution, as amended.

Item 5 File 13-0513	Department: Department of Public Health

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve a new contract between the Department of Public Health (DPH) and MedImpact Healthcare Systems, Inc. (MedImpact) to provide Pharmacy Benefits Management Services for Community Behavioral Health Services clients who do not have prescription drug insurance for $28,291,346, for the five-year term from July 1, 2013 through June 30, 2018.

Key Points

- Based on a Request for Proposal (RFP), MedImpact provided similar Pharmacy Benefits Management Services for DPH's Community Behavioral Health Services clients under a $27,122,200 contract from October 1, 2008 through June 30, 2013.
- Based on another RFP process in 2012, MedImpact would continue to maintain contracts with a network of pharmacies, electronically screen prescriptions for eligibility and process payments for prescriptions written by DPH Community Behavioral Health Services and City authorized psychiatrists for covered medications and related fiscal intermediary services.

Fiscal Impacts

- Under the proposed MedImpact contract, the DPH discount rate will increase from 16% to 20% for generic medications and MedImpact will now guarantee that DPH receives at least a 76% discount for all generic drugs. In addition, the dispensing fee that MedImpact receives per medication will decrease from $1.79 per prescription under the prior contract to $1.25 per prescription, a reduction of $.54 or 30%.
- Actual expenditures under the prior MedImpact contract which extended from October 1, 2008 through June 30, 2013 were $16,817,961, with the lowest expenditures occurring in FY 2012-13. As a result, total actual expenditures were $10,304,239 less than the not-to-exceed authorized amount of $27,122,200 in the original MedImpact contract.
- Given that actual expenditures have averaged $3,369,354 over the last four fiscal years, and still allowing for a 12% contingency to reflect potential increases in costs for medications in the proposed contract, the Budget and Legislative Analyst recommends reducing the proposed contract not-to-exceed amount by $9,422,964, from $28,291,346 to $18,868,382.

Recommendations

- Amend the proposed resolution to provide for retroactive approval to July 1, 2013.
- Amend the proposed resolution to state: "Further Resolved, that the Board of Super the Board of Supervisors hereby authorizes the Director of Health and the Director of the Office of Contract Administration/Purchaser to make amendments to these contracts, as needed <u>that do not materially increase the obligations or liabilities of the City</u> (revised language underlined)".
- Amend the proposed resolution to reduce the not-to-exceed contract amount by $6,698,226 from a total not-to-exceed amount of $28,291,346, to a total-not-exceed amount of $21,593,120.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT/BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118, any contract (a) for more than $10,000,000, (b) or that extends for longer than ten years, or (c) with an amendment of more than $500,000, is subject to Board of Supervisors approval.

Background

On October 28, 2008, based on a Request for Proposal (RFP) process, the Board of Supervisors approved a resolution (File 08-1217; Resolution 460-08) authorizing the Department of Public Health (DPH) to enter into a contract with MedImpact Healthcare Systems Inc. (MedImpact) for an amount not-to-exceed $27,122,200 for the four-year and nine month term from October 1, 2008 through June 30, 2013 to provide pharmacy benefits management services.

In accordance with this contract, when a DPH Community Behavioral Health Services[1] psychiatrist prescribes a medication for an uninsured patient, the psychiatrist electronically forwards that prescription to the patient's pharmacy and the patient picks up the prescription at that pharmacy. Under the existing contract, MedImpact is required to electronically screen each prescription for eligible DPH Community Behavioral Health Services patients and to process the payments for those prescriptions for covered medications through a broad network of pharmacies in the City. Currently, there are approximately 2,000 patients under this program. MedImpact has contracts with a network of over 120 pharmacies in San Francisco, including Walgreens, Safeway and various independent pharmacies, allowing DPH patients to access pharmacies with bilingual language capabilities, and 24-hours a day, seven days a week. Based on the existing contract, DPH patients are typically not charged a co-payment for their prescriptions, such that MedImpact charges DPH for each prescription filled, based on contractually agreed upon rates.

On, September 6, 2012, DPH issued another RFP for pharmacy benefits management services for DPH's Community Behavioral Health Services patients. DPH received responses from two firms, (a) MedImpact and (b) Perform Rx, and based on DPH's evaluation process, selected MedImpact to continue to maintain contracts with a network of pharmacies, electronically screen prescriptions for eligibility and process payments for prescriptions written by DPH Community Behavioral Health Services and City authorized psychiatrists for covered medications and other related fiscal intermediary services.

DETAILS OF PROPOSED LEGISLATION

Based on a competitive RFP process, the proposed resolution would approve a new contract between the Department of Public Health (DPH) and MedImpact Healthcare Systems, Inc. (MedImpact) to provide Pharmacy Benefits Management Services for Community Behavioral Health Services patients who do not have prescription drug insurance for $28,291,346, for the five-year term from July 1, 2013 through June 30, 2018.

[1] DPH's Community Behavioral Health Services provide mental health services for all San Franciscans who require behavioral health services and do not have private insurance.

As noted above, the prior contract with MedImpact expired on June 30, 2013. According to Dr. Gloria Lee Wilder, DPH's Director of Pharmacy, MedImpact has continued to provide pharmacy benefits management services since July 1, 2013, based on a new one-year contract that includes the proposed contract provisions, which provide for reduced rates. Therefore, the proposed resolution should be amended to provide for retroactive approval of the proposed contract.

In addition, the proposed resolution states that "the Board of Supervisors hereby authorizes the Director of Health and the Director of the Office of Contract Administration/Purchaser to make amendments to these contracts, as needed". The Budget and Legislative Analyst recommends amending the proposed resolution to add the phrase, "that do not materially increase the obligations or liabilities of the City".

Under both the prior and proposed contracts, MedImpact charges DPH specified discounted rates based on the Average Wholesale Price (AWP) less a specified discount, or the Maximum Allowable Costs (MAC) on the specific medication, depending on whether the prescription is a brand name or generic, plus a flat dispensing fee, as summarized in Table 1 below.

Table 1: Comparison of Prior and Proposed Contract Rates

Type of Medication	Prior Contract	Proposed Contract
Brand Name	AWP less 16% plus $1.79 dispensing fee	AWP less 16% plus $1.25 dispensing fee
Generic	AWP less 16% or MAC plus $1.79 dispensing fee	AWP less 20% or MAC plus $1.25 dispensing fee
Generic Effective Rate*	None	76%

*The Generic Effective Rate is defined as the average percent discount off the Average Wholesale Price (AWP) for all generic drugs used by CBHS in a calendar year. MedImpact guarantees at least a 76% discount under the proposed contract, or MedImpact will pay the difference.

As shown in Table 1 above, under the proposed contract, the discount rate will increase from 16% to 20% for generic medications and MedImpact will now guarantee that DPH receives at least a 76% discount for all generic drugs. In addition, as shown in Table 1 above, the dispensing fee that MedImpact receives per medication will decrease from $1.79 per prescription to $1.25 per prescription, a reduction of $.54 or 30%.

In FY 2012-13, MedImpact was responsible for administering a total of 54,323 prescriptions that were picked up and charged back to DPH. According to Dr. Wilder, MedImpact serves an average of 1,879 clients each month with an average of 4,527 prescriptions each month.

FISCAL IMPACTS

The proposed contract would provide for a total not-to-exceed $28,291,346, over the five-year term that began July 1, 2013 and will end June 30, 2018. As shown in Table 2 below, the proposed contract budget reflects an average of $5,052,026 per year, plus a 12% contingency of $3,031,216.

Table 2: Proposed Contract Budget

Fiscal Years	Proposed Contract Budget
FY 2013-14	$5,052,026
FY 2014-15	$5,052,026
FY 2015-16	$5,052,026
FY 2015-16	$5,052,026
FY 2017-18	$5,052,026
Subtotal	**$25,260,130**
Contingency (12%)	**$3,031,216**
Total	**$28,291,346**

As noted above, the prior four year and nine month MedImpact contract which extended from October 1, 2008 through June 30, 2013, was for a not-to-exceed $27,122,200, including a 12% contingency. As of June 30, 2013, actual MedImpact contract expenditures under the prior contract were $16,817,961. As shown in Table 3 below, as a result, actual expenditures were $10,304,239 less than the not-to-exceed authorized amount in the original MedImpact contract.

Table 3: MedImpact Contract Expenditures Compared to Not-to-Exceed Amount

Term	Original Contract Not to Exceed Amount	Actual Expenditures	Difference
10/1/08 to 6/30/09	$3,948,146	$3,340,547	$607,599
7/1/09 to 6/30/10	5,067,026	3,745,968	1,321,058
7/1/10 to 6/30/11	5,067,026	3,779,554	1,287,472
7/1/11 to 6/30/12	5,067,026	3,530,638	1,536,388
7/1/12 to 6/30/13	5,067,026	2,421,254*	2,645,772
Subtotal	$24,216,250	$16,817,961	$7,398,289
Contingency (12%)	2,905,950	n/a	n/a
Total	**$27,122,200**	**$16,817,961**	**$10,304,239**

*Includes projected invoices to be received for FY 2012-13.

In addition, as shown in Table 3 above, the actual costs decreased significantly in FY 2012-13. According to Dr. Wilder, costs decreased in FY 2012-13 because the brand patents expired on a number of psychotropic medications, allowing DPH to change from higher cost brands to generic medications.

While Dr. Wilder acknowledges the significant reduction in costs in FY 2012-13 and the proposed cost reductions included in the proposed MedImpact contract, she advises that there are various potential new psychotropic medications, as well as substance abuse medications and related smoking cessation drugs that may become available in the next several years that could be prescribed, which would result in significant cost increases to DPH under the proposed MedImpact contract. Based on Dr. Wilder's estimates of medication cost increases and potential new drugs that may become available, Dr. Wilder estimates a total annual average cost of $4,318,624 under the proposed MedImpact contract.

As shown in Table 4 below, based on estimated annual projected expenditures of $4,318,624, the Budget and Legislative Analyst recommends reducing the proposed contract not-to-exceed amount by $6,698,226, from $28,291,346 to $21,593,120.

Table 4: Budget and Legislative Analyst's Recommended Reduction

Estimated Annual Projected Expenditures	$4,318,624
Estimated Annual Expenditures x 5 Years of Proposed Contract	**21,593,120**
Proposed Contract Not-to-Exceed Amount	28,291,346
Proposed Reduction in Not-to-Exceed Amount	**$6,698,226**

RECOMMENDATIONS

1. Amend the proposed resolution to provide for retroactive approval of the subject contract to July 1, 2013.

2. Amend the proposed resolution to state: "Further Resolved, that the Board of Supervisors hereby authorizes the Director of Health and the Director of the Office of Contract Administration/Purchaser to make amendments to these contracts, as needed that do not materially increase the obligations or liabilities of the City (revised language underlined)".

3. Amend the proposed resolution to reduce the not-to-exceed contract amount by $6,698,226 from a total not-to-exceed amount of $28,291,346, to a total-not-exceed amount of $21,593,120.

4. Approve the proposed resolution, as amended.

Item 6 File 13-0514	Department(s): Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution (File 13-0514) would authorize the Department of Public Health to enter into an amended contract with Siemens, increasing the not-to exceed amount by $18,493,967, from $33,820,487 to $52,314,454. The proposed resolution would amend the existing contract to include new services related to electronic medical record-keeping and improving surgical information systems at San Francisco General Hospital. The term of the amended contract through June 30, 2017 is the same as the term of the existing contract, with one option to extend the term for an additional two years through June 30, 2019.

Key Points

- The DPH has three key reasons to amend the contract with Siemens: compliance with new federal regulations, primary among these being the “meaningful use” of electronic medical records, the influx of new insured patients as a result of California’s expansion of Medicaid and the establishment of health exchanges under the Affordable Care Act, and for the San Francisco General Hospital (SFGH) to upgrade their surgical room information systems.

Fiscal Impact

- The DPH already received $16,888,154 in incentives from the federal government for complying with Meaningful Use regulations, and is expected to earn another $5,178,050 in incentives over the next two fiscal years.
- Because the $18,474,493 budget for the amended contract is $19,474 less than $18,493,967 increase in the contract not-to-exceed amount (due to a miscalculation regarding taxes and CPI adjustments), the proposed resolution should be amended to reduce the total contract not-to-exceed amount by $19,474, from $52,314,454 to $52,294,980.

Policy Considerations

- Under the proposed resolution, the Board would waive Administrative Code Section 21.21, which protects the City from claims from third parties that the City is using intellectual property, such as software applications, without proper licensing.

- According to the DPH, waiving Administrative Code Section 21.21 is necessary to implement certain software necessary to comply with federal requirements under the Affordable Care Act, and the City must use third party software from companies that do not extend their software protection against infringement or intellectual property claims to users.

Recommendations

- Amend the proposed resolution to reduce the not-to exceed amount by $19,474 of $52,314,454 to $52,294,980.

- Approve the amended resolution.

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

In accordance with City Charter Section 9.118(b), (a) any contract or agreement requiring $10,000,000 in anticipated expenditures, and (b) any contract amendment that exceeds $500,000 is subject to Board of Supervisors approval.

Background

Siemens Medical Solutions USA, Inc.

The Board of Supervisors approved a contract between the Department of Public Health (DPH) and Siemens Medical Solutions USA, Inc. (Siemens) in July 2010 for an amount not-to exceed $33,820,487 to provide software and technical assistance to upgrade the Department's use of electronic medical records and coordination of care and payments (File 10-0752). Siemens has been the DPH's principal provider of clinical and financial systems for the past 25 years. The contact in 2010 was awarded on a sole source basis, because so much of the DPH's existing information systems were provided by Siemens, and the possibility of migrating to a competitor was operationally prohibitive.

The electronic systems allow nurses and doctors to keep track of a patient's medical treatments and to coordinate among providers of care, including those not immediately within the DPH hospitals, clinics, and health centers. This software allows the DPH to track medication histories, manage documents, and make sure all of the DPH's databases can communicate. The financial systems allow staff to generate bills, do basic accounting, and keep track of revenues.

Compliance with new Federal Regulations

According to Mr. David Counter, DPH Chief Information Officer, DPH must amend the existing contract with Siemens because of three requirements as explained below. The first is that the DPH needs to come into compliance with new federal regulations, primary among these being the "meaningful use" of electronic medical records (Meaningful Use).

The American Recovery and Reinvestment Act (ARRA) provided incentives to hospitals and health departments to adopt and upgrade their electronic medical records. These incentives include a maximum of $63,750 (for Medicaid providers) over 6 years beginning in 2011 for every "eligible professional" within a clinic or hospital that has adopted and is "meaningfully using" electronic health records. For Medicare, the maximum incentive is $44,000 over 5 years beginning in 2011. Starting in 2015, Medicare will begin penalizing hospitals and clinics that cannot demonstrate meaningful use. These penalties consist of reducing reimbursement rates by 1% in 2015, with such reduction to rates rising to 4% in 2018.

Increase in Medicaid and "Third Party" Coverage

Secondly, according to Mr. Counter, the influx of new insured patients (as a result of California's expansion of Medicaid and the establishment of health exchanges under the

Affordable Care Act) will require upgrades to the DPH's information systems. "Third Party" coverage refers to the new group of patients who will be subsidized to purchase insurance from private insurers on health exchanges. According to Mr. Counter, the DPH could see a doubling or tripling of patients who need to be checked to see which insurance program (Medicaid, Third Party, etc.) they qualify for.

Clinical Services for San Francisco General Hospital

The third key reason for amending the existing contract is for the San Francisco General Hospital (SFGH) to upgrade their surgical room information systems. Currently, much of the documentation required by law during surgery is done by hand, leading to errors and a lack of consistent record-keeping. The upgraded system will allow surgical staff to record information during operations, rather than afterwards. Also SFGH wants to upgrade their operating room scheduling software. DPH is also imposing new requirements related to the administration and documentation of anesthetics, and a systems upgrade would allow for better management of that program.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (File 13-0514) would authorize the Department of Public Health to amend its existing contract with Siemens, increasing the not-to exceed amount by $18,493,967, from $33,820,487 to $52,314,454. The proposed resolution would amend the existing contract to include new services related to electronic medical record-keeping and improving surgical information systems at San Francisco General Hospital. The term of the amended contract through June 30, 2017 is the same as the term of the existing contract which contains one option to extend the term for an additional two years through June 30, 2019.

FISCAL IMPACTS

The existing contract between the DPH and Siemens is for a not-to exceed amount of $33,820,487 through June 30, 2017. The proposed resolution would increase that amount by $18,493,967 over the next four years, to a not-to exceed amount of $52,314,454. The cost of this amended contract has been recommended for approval by the Budget and Finance Committee of the Board of Supervisors in the DPH Fiscal Years 2013-14 and 2014-15 budgets. According to Ms. Jenny Louie, Budget Director at the DPH, the entirety of this funding will come from the General Fund.

Revenues

As mentioned in the background section, the amended contract is expected to allow the DPH to qualify for incentives provided by the federal government for upgrading their electronic medical record-keeping. The DPH already received incentive payments of $16,888,154 from the federal government for complying with these Meaningful Use incentives. Table 1 below shows past receipt of Meaningful Use incentives and projections of future incentive payments of $5,178,050.

Table 1: DPH Receipt of Meaningful Use Incentives

FY 2011-12	$11,504,755
FY 2012-13	5,383,399
Subtotal Past Incentives	16,888,154
FY2013-14	2,627,940
FY 2014-15	2,550,110
Subtotal Future Incentives	5,178,050
Total	**$22,066,204**

Expenditures

Table 2 shows a budget for the increased expenditures of $18,474,493 under the proposed amended contract.

Table 2: Proposed Expenditures

Meaningful Use of Electronic Records/ Compliance with Affordable Care Act	$7,831,292
SFGH Clinical Systems	4,179,897
Other Professional Services	5,225,828
Subtotal	17,237,017
Sales Tax	929,796
Consumer Price Index (CPI) Increases	307,680
Total	**$18,474,493**

Because the $18,474,493 budget for the amended contract is $19,474 less than the requested $18,493,967 not-to-exceed increased contract amount, the proposed resolution should be amended to reduce the total contract not-to-exceed amount by $19,474, from $52,314,454 to $52,294,980.

Table 3 below details the expenditures for DPH to comply with Meaningful Use of Electronic Records and Affordable Care Act provisions, totaling $7,831,292 as shown in Table 2 above.

Table 3: Meaningful Use of Electronic Records/ Compliance with Affordable Care Act Expenditures

Regulatory Compliance Service	Cost	Description	DPH Justification
Mobile MD	$1,075,000	Software that uses patient data to coordinate care with providers. It allows clinics not necessarily in the same organization to share data on results, referrals, patient discharges and transfers, and other aspects of care.	"This software will provide the capability for Providers and Patient Portals for secure access to patient care plans. Meaningful Use compliance requires the capability for patient access to this Electronic Medical Record and engagement with care planning."
Sorain Online Medical Records (OMR) and Completion Management	$1,253,125	Software that will let SFGH integrate all of a patient's clinical and financial information into one online record. It also allows for a patient to electronically sign documents.	"This software will provide the ability for Clinicians to immediately access the entire patient record from any location and electronically signing records for chart completion to eliminate chart deficiencies. Rates of chart deficiencies will decrease and physician adoption of the Electronically Medical Record will be enhanced."
Imprivata	$638,735	Software that allows a user to only need to sign-in once to access multiple applications.	"This is the leading vendor of single sign-on technology and a strategic business partner of Siemens. The function may be deployed with full integration with the Siemens Invision product. Lack of Single Sign-On capability will require clinicians to maintain multiple log-on credentials which must be re-entered as they more though patient care access."
Health Care Data Exchange - HDX	$3,442,500	HDX provides a standard fee for unlimited online eligibility verification transactions for third party payors.	"The current HDX transaction levels have historically been primarily for MedCaid and Medi-Care eligibility status. Healthcare Reform will provide the options for MediCaid patients to have private insurance which will significantly increase the number of eligibility status transactions."
Clinical Health Services (CHS), Technology/Wide Area Network (WAN) and Project Leadership	$1,421,932	This items provides for the additional project management, technical networking assistance, and transaction fees to effectively deploy new systems. These will function locally and via the Siemens Technology Center in Malvern, PA.	"CHS remote processing fees allow the deployment of systems remotely at the Siemens Technology Center. Fees and technical professional services are required to implement and operates systems on a Remote Computing Option (RCO) basis."
Total	**$7,831,292**		

Table 4 below shows expenditures for San Francisco General Hospital's clinical systems, totaling $4,179,897.

Table 4: SFGH Clinical Systems Expenditures

San Francisco General Hospital Clinical Systems	Cost	Description	DPH Justification
Surgical Information Systems	$3,888,935	Comprehensive system to support clinical operations and surgical services, including Operating Room scheduling and readiness, clinical documentation, anesthesiology and other perioperative management requirements.	"The current surgical system at SFGH has obsolete hardware and software that cannot be upgraded. SIS is a strategic partner of Siemens and their system can be deployed with full integration to the existing Invision base system. Manual clinical documentation in surgical services cannot be sustained, will result in patient safety issues, and an inability to maintain surgical medication verification."
Inpatient Pharmacy Upgrade	$104,122	Software upgrade for the SFGH's Inpatient Pharmacy to accommodate new clinical documentation needs for medication administration.	"This software upgrade is necessary to expand the existing pharmacy system database to include additional fields related to physician on-line medication ordering. Upgrade and technology assistance is required for the database to be at the proper level for increased access by clinicians."
Clinical Help Desk Services	$186,840	Additional 24/7 clinical help desk call support for clinicians implementing new patient care applications.	"This service is required to support the physicians and nurses as new clinical systems are implemented. Clinicians with questions deal directly with patient care decisions, which cannot be handled by Technical IT Helpdesk staff. Patient care issues will be avoided by having this support available on all SFGH shifts."
Total	**$4,179,897**		

Table 5 below shows the expenditures of $5,225,828 noted in Table 2 above for professional services to upgrade existing DPH systems.

Table 5: Professional Services Expenditures

Professional Services and Other Expenses	Cost	Description	DPH Justification
Quality Indicator Reporting	$200,000	Additional programming support to reduce specific reports for multiple clinical areas for outcome measurement and quality target areas.	"Quality indicator reporting is a key area of Meaningful Use compliance, and will be increasingly important for clinical data support of patient care reimbursement."
Security Audit for Protected Health Information	$150,000	Professional services in support of HIPAA security requirements including vulnerability assessment and compliance plan development.	"Compliance with HIPAA security standards is required for participation in Third Party Payor programs including Medicaid and Medicare."
ePrescribing Medication Reconciliation	$150,000	Additional programming support for the development of unified medication lists including hospital and home based medication.	"Medication reconciliation is considered to be a major patient safety problem area and is a component of hospital licensing and certification standards."
Infrastructure services and clinical access	$350,000	Technical professional services to assist with the deployment of VM Ware virtualized desktops and Single Sign-On for optimal clinician access to systems.	"Services will greatly enhance the ability of Clinicians to access critical information systems and to maintain a single log-on for multiple systems."
Electronic document management for Medical Records	$450,000	Deployment of the ability to scan hard copy clinical and fiscal documents into foundation Invision systems.	"Electronic Medical Records must include all key patient care documents found in hard copy charts. Chart completion compliance will be greatly enhanced."
Patient portal implementation	$200,000	Additional programming assistance to effectively deploy patient clinical portals via Mobile MD with comprehensive medical chart informatics.	"Immediate patient access to this Medical Records is a key compliance element of Healthcare Reform and patient engagement in clinical care planning."
Patient Accounting enhancements for Affordable Care Act	$919,310	Additional programming support for Patient Accounting system screen builds, database modification and reporting to address emerging billing standards and Managed Care.	"The affordable Act will require modification to adjust to new billing and reimbursement standards including computation Managed Care."
Discharge diagnosis summary deployment	$130,000	Additional programming support to convert and transmit hospital discharge data to a transition of care document.	"Meaningful Use compliance requires that a full discharge summary be available to transitional non- hospital treatment providers."
Security enhancements for Protected Health Information	$300,000	Technical professional services to address enhanced security compliance needs including intrusion detection and access audits to clinical data.	"Meaningful Use Stage 2 will require the on-going validation of adequate meanness to protect and monitor the access to Protected Health Information."
Infrastructure services and clinical access.	$526,518	Technical services to deploy VM Ware Clinical desktops are Single Sign-On to clinical areas prior to activation of new SFGH facility.	"Technical services are required to complete deployment and readiness of clinical areas as a component of transitioning to the new SFGH facility in 2015."

Table 5: Professional Services Expenditures (continued)

Professional Services and Other Expenses	Cost	Description	DPH Justification
Computerized Order Entry for Stage 2 Meaningful Use	$250,000	Additional programming support for CPOE system enhancements for clinical order entry and transmittal.	"Meaningful Use Stage 2 will have additional requirements for levels of clinical order entry and medications error checking."
Critical Care/ICU clinical orders	$250,000	Additional programming support upgrades the Clinical Providers Order Entry systems to include the needs of this specially area.	"Critical Care/ICU requires specification clinical order criterion not available in base system.
Utilization Management and Reporting	$200,000	Additional programming to support the reporting needs of transmitting patients to different levels of care	"Healthcare reform implementation requires the monitoring and justification of patient admissions at multiple levels of care."
Quality Indicator Reporting for Outcome Measurement	$200,000	Additional programming support for enhanced outcome date reporting for clinical treatment teams.	"Enhanced quality indicator and outcome reporting will be a key area of Meaningful use Stage 2 And Stage 3, and will be used to support reimbursement claims."
Systems Readiness and Transition to new SFGH facility	$500,000	Additional programming and technical services to support the infrastructure and data needs of new clinical treatment areas and workflows.	"The new SFGH facility will require the deployment of clinical system and access infrastructure for the transition to a new operational environment."
Provider documentation for Continuity of Care	$250,000	Additional programming to produce the comprehensive clinical record in a format, which can be transmitted to multiple clinical provider systems.	Healthcare reform legislation requires that a complete summary record in a Continuity of Care document format be available upon discharge.
Specialty Services Clinical Order Build and Implementation	$200,000	Additional programming to expand the Computerized Provider Order Entry system for the particular assessment and clarity needs of medical specialty clinics.	Specialty clinics have multiple revenue needs for clinical order entry due to the particular area of emphasis of the clinic.
Total	**$5,225,828**		

Taxes and Consumer Price Index Increases

Under the proposed contract amendment, the DPH would be responsible for paying any State sales taxes owed on the purchase of hardware, software, and accompanying licenses and support. According to Mr. Counter, the state of California charges 8.75% for sales tax on these items.

In addition, the contract allows Siemens to increase any “recurring fees” once a year to account for inflation. The contract states that DPH will pay either the annual measure of inflation (CPI) or 4%, whichever is less. For budgetary purposes, the DPH assumes a 4% inflation rate. Table 6 below summaries these expenses.

Table 6: Sales Tax and CPI Increases

Taxes and CPI Increases	Cost	Description
Taxes	$929,796	8.75% sales tax owed in California for software and hardware services
CPI Adjustments on Recurring Fees	$307,680	Budget for the DPH assumes a 4% inflation rate, the maximum interest rate the DPH could pay

POLICY CONSIDERATION

Under the proposed resolution, the Board would waive Administrative Code Section 21.21, which says that any software contracts must indemnify the City from infringement and intellectual property claims. The section is intended to protect the City from claims by contractors or third parties that the City is misusing the intellectual property (or using software without proper licensing) that the City has contracted out for. Administrative Code Section 21.21 states:

> Each Contractor entering into a contract with the City that could involve the Contractor's provision of intellectual property to the City must save, keep, hold harmless and fully indemnify the City and any of its officers or agents from all damages, or claims for damages, costs or expenses in law or equity that may at any time arise or be set up for infringement of the patent rights, copyright, trademark or other intellectual property claims of any person in consequence of the use by the City, or any of its officers or agents, of articles to be supplied under such contract and of which the contractor is not the patentee or assignee or has not the lawful right to sell the same.

A clause waiving Administrative Code Section 21.21 was included in the original contract between the DPH and Siemens and approved by the Board of Supervisors in 2010 (File 10-0752). According to Mr. Counter, waiving Administrative Code Section 21.21 is necessary to implement information systems necessary to comply with federal requirements under the Affordable Care Act, and the City must use third party software from companies that do not extend their software protection against infringement or intellectual property claims to users.

According to Ms. Kathy Murphy, Deputy City Attorney, “In this contract, Siemens provides the requisite indemnification for patent infringement for all Siemens products. However, it has informed the City that it cannot provide this indemnification for some of the third party software products that are used to support this system. The Department of Public Health has determined that in light of the totality of this contract, the risk of third party software infringement is quite small. Further, in the event that such a risk was identified, the Department would be able to work with Siemens and its other clients to either obtain a license or identify alternative software. This provision has been approved by the Board of Supervisors for previous contracts with this vendor.”

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not-to exceed amount by $19,474 from $52,314,454 to $52,294,980.

2. Approve the proposed resolution, as amended.

Item 7 File 13-0532	Departments: Department of Public Health

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively amend the existing contracts for long term mental health services in 24-hour locked facilities between the Department of Public Health (DPH) and (1) Crestwood Behavioral Health Services (Crestwood), increasing the not-to-exceed amount by $14,183,906 from $48,787,156 to $62,971,062; and (2) Mental Health Management I, Inc. dba Canyon Manor (Canyon Manor), increasing the not-to-exceed amount by $7,002,810 from $20,966,758 to $27,969,568. The proposed resolution would retroactively approve an 18-month extension of each contract's term, from the original termination date of June 30, 2013 to the new termination date of December 31, 2014. Therefore, each contract would have a total contract term of six years and 3 months years, from October 1, 2008, through December 31, 2014.

Key Points

- The Board of Supervisors previously approved the two existing contracts between DPH and Crestwood and Canyon Manor in October 2008 based on a competitive Request for Proposals (RFP) to provide mental health services in locked facilities to the residents of San Francisco.
- According to Ms. Anne Okubo, DPH Deputy Finance Director, after the 18 month extension, the DPH anticipates reducing the contract with Crestwood by reducing the number of beds, and terminating the contract with Canyon Manor.

Fiscal Impact

- Because the not-to-exceed amount under the proposed contract between DPH and Crestwood exceeds than the needed amount, the Budget and Legislative Analyst recommends reducing the contract not-to-exceed amount by $11,242,911, from $62,971,062 to $51,728,151.
- Because the not-to-exceed amount under the proposed contract between DPH and Canyon Manor exceeds than the needed amount, the Budget and Legislative Analyst recommends reducing the contract not-to-exceed amount by $1,438,721, from $27,969,568 to $26,530,847.

Recommendations

- Amend the proposed resolution to state: "Further Resolved, that the Board of Supervisors hereby authorizes the Director of Health and the Director of the Office of Contract Administration/Purchaser to make amendments to these contracts, as needed <u>that do not materially increase the obligations or liabilities of the City</u> (revised language underlined)";
- Amend (1) Page 1, Line 14 of the proposed resolution to reflect the correct initial contract term of "four years and nine months," and (2) Page 2, Line 2 of the proposed resolution to reflect the correct contract total term of "six years and three months";
- Amend the proposed resolution to state the correct not-to-exceed existing contract amount of $48,787,156 and the correct increase in the not-to-exceed amount of $14,183,906 in the contract between DPH and Crestwood;
- Amend the proposed resolution to (1) provide for retroactive approval of the amendment to the existing contract between DPH and Crestwood to December 31, 2014, and (2) reduce the proposed not-to-exceed amount of the contract between DPH and Crestwood by $11,242,911, from $62,971,062 to $51,728,151;
- Amend the proposed resolution to (1) provide for retroactive approval of the amendment to the existing contract between DPH and Canyon Manor to December 31, 2014, and (2) reduce the proposed not-to-exceed amount of the contract between DPH and Canyon Manor by $1,438,721, from $27,969,568 to $26,530,847; and
- Approve the proposed resolution as amended.

MANDATE STATEMENT/BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118(b), any contracts or agreements entered into by a department, board or commission requiring anticipated expenditures by the City and County of San Francisco of $10,000,000, or the modification of amendments to such contract or agreement having an impact of more than $500,000 shall be subject to approval of the Board of Supervisors by resolution.

Background

From July 1, 2006, through September 30, 2008, the Department of Public Health (DPH) contracted with a non-profit agency, Canyon Manor, for a licensed Mental Health Rehabilitation Center located in Novato, California that provides (a) diagnosis and treatment of clients, to San Francisco residents aged 18-60 years, with mental illness, including medical attention, nursing care, transportation and escorts, and (b) related services for San Francisco residents aged 18-60 years who have a specific psychiatric diagnosis.

From July 1, 2007, through December 31, 2008, the DPH also contracted with a non-profit agency, Crestwood Behavioral Health Services (Crestwood), to provide San Francisco residents aged 18-64 years, in 13 facilities within the Bay Area,[1] with (a) comprehensive psychiatric and behavioral evaluation and related services, (b) neurobehavioral services, (c) physical, occupational, and speech therapies, and (d) skilled nursing care for comprehensive wound management, complex medical cases, and complicated/traumatic orthopedic rehabilitation.

Both of the contracts with Canyon Manor and Crestwood provided mental health services in locked facilities under RFP 1-2003 which expired in 2008.

On January 29, 2008, the DPH issued a competitive Request for Proposals (RFP) to provide mental health services in locked facilities. The DPH received proposals only from Canyon Manor and Crestwood, both non-profit agencies.

On April 22, 2008, the DPH's evaluation panel recommended two separate contract awards to Canyon Manor and to Crestwood because (a) each facility has a limited capacity, and (b) each facility has mental health specialties that the DPH requires in order to serve clients' specific mental health needs. Canyon Manor provides services at one locked facility located in Novato, California. Crestwood provides services in 13 facilities within the Bay Area. The DPH awarded two contracts to Canyon Manor and Crestwood respectively with an initial term for each contract of four years and 9 months from October 1, 2008, to June 30, 2013, with 5 one-year options to

[1] The 13 facilities are located in (1) Alameda, (2) Angwin, (3) Bakersfield, (4) Eureka, (5) Fremont, (6) Idylwood, (7) Modesto, (8) Redding, (9) Sacramento, (10) San Jose, (11) Stockton, and (12-13) two sites in Solano.

renew each contract through June 30, 2018. The Board of Supervisors approved the contracts in October 2008 (File 08-1217).

The original contract between the DPH and Canyon Manor, which was previously approved by the Board of Supervisors, from October 1, 2008 through June 30, 2013 was for an amount not-to-exceed $20,996,758, which included $18,720,320 for services plus a 12 percent contingency of $2,246,438.

The original contract between the DPH and Crestwood, which was previously approved by the Board of Supervisors, from October 1, 2008 through June 30, 2013 was for an amount not-to-exceed $48,787,156, which included $43,559,961 for services plus a 12 percent contingency of $5,227,195. As discussed further below, actual expenditures under the contract between the DPH and Crestwood have been less than the authorized not-to-exceed amount because one of the 13 facilities under the original contract, the Idylwood Care Center, separated from Crestwood and entered into a separate contract with the DPH.[2]

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve:

- An amendment to the existing contract between DPH and Crestwood, extending the term by 18 months retroactively from July 1, 2013 through December 31, 2014, and increasing the not-to-exceed amount by $14,183,906, from $48,787,156 to $62,971,062; and
- An amendment to the existing contract between DPH and Canyon Manor, extending the term by 18 months retroactively from July 1, 2013 through December 31, 2014, and increasing the not-to-exceed amount by $7,002,810, from $20,966,758 to $27,969,568.

According to Ms. Anne Okubo, DPH Deputy Finance Director, after the 18 month extension, the DPH anticipates reducing the contract with Crestwood by reducing the number of beds, and terminating the contract with Canyon Manor.[3] DPH will continue to have a contract with Crestwood at a lower cost after the 18 months due to the reduced number of beds.[4] Extension of the contract between the DPH and Crestwood after December 31, 2014 is subject to Board of Supervisors approval.

The proposed resolution states that "the Board of Supervisors hereby authorizes the Director of Health and the Director of the Office of Contract Administration/Purchaser to make amendments to these contracts, as needed". The Budget and Legislative Analyst recommends amending the proposed resolution to add the phrase, "that do not materially increase the obligations or liabilities of the City".

[2] Crestwood continues to act as facility manager for Idylwood Care Center.

[3] According to Ms. Okubo, Crestwood and Canyon Manor do not hold dedicated beds for the DPH. The number of beds varies based on the number of clients referred.

[4] The reduction in the number of beds is intended to redirect clients into lower levels of care, in accordance with the DPH's policy and legal obligation to place clients in the least restrictive, most appropriate level of care in the most cost-effective manner. DPH plans to (1) laterally transfer all Canyon Manor clients to either the San Francisco Behavioral Health Clinic Mental Health Rehabilitation Center, with which DPH also has a locked facility contract, or a Crestwood facility or (2) step clients down to a lower level of care.

FISCAL IMPACTS

Under the proposed resolution, the not-to-exceed amount in the contract between DPH and Crestwood will increase by $14,183,906, from $48,787,156 to $62,971,062. The contract is fully funded by the General Fund. Funds to pay for the contracts are included in the DPH FY 2013-14 and FY 2014-15 budgets, as recommended by the Budget and Finance Committee of the Board of Supervisors.

As shown in Table 1 below, actual expenditures under the original contract are $11,803,118 less than the contract not-to-exceed amount.

Table 1: Crestwood Contract Expenditures Compared to Not-to-Exceed Amount

Term	Original Contract Not to Exceed Amount	Actual Expenditures	Actual Expenditures Less than Original Contract Amount
10/1/08 to 6/30/09	$6,877,889	$4,739,967	$2,137,922
7/1/09 to 6/30/10	9,170,518	7,704,785	1,465,733
7/1/10 to 6/30/11	9,170,518	8,071,785	1,098,733
7/1/11 to 6/30/12	9,170,518	8,044,700	1,125,818
7/1/12 to 6/30/13	9,170,518	8,422,801	747,717
Subtotal	$43,559,961	$36,984,038	$6,575,923
Contingency (12%)	5,227,195	n/a	n/a
Total	**$48,787,156**	**$36,984,038**	**$11,803,118**

Because the not-to-exceed amount under the proposed contract between DPH and Crestwood exceeds the needed amount, as shown in Table 2 below, the Budget and Legislative Analyst recommends reducing the contract not-to-exceed amount by $11,242,911, from $62,971,062 to $51,728,151.

Table 2: Budget and Legislative Analyst's Recommended Reduction

Actual Expenditures as of June 30, 2013	$36,984,038
Proposed Expenditures July 1, 2013 to December 31, 2014	12,634,202
Contingency (12% of Expenditures July 1, 2013 through December 31, 2014)	1,516,104
Cost of Living Adjustment (4.7%)	593,807
Total Recommended Not-to-Exceed Amount	51,728,151
Proposed Contract Not-to-Exceed Amount	62,971,062
Proposed Reduction in Not-to-Exceed Amount	**$11,242,911**

Under the proposed resolution, the not-to-exceed amount in the contract between DPH and Canyon Manor will increase by $7,002,810, from $20,966,758 to $27,969,568. As shown in Table 3 below, actual expenditures under the original contract are $1,732,289 less than the contract not-to-exceed amount.

Table 3: Canyon Manor Contract Expenditures Compared to Not-to-Exceed Amount

	Original Contract Not to Exceed Amount	Actual Expenditures	Actual Expenditures Less than Original Contract Amount
10/1/08 to 6/30/09	$2,955,840	$3,122,814	($166,974)
7/1/09 to 6/30/10	3,941,120	3,981,122	(40,002)
7/1/10 to 6/30/11	3,941,120	3,981,122	(40,002)
7/1/11 to 6/30/12	3,941,120	3,981,122	(40,002)
7/1/12 to 6/30/13	3,941,120	4,168,339	(227,219)
	18,720,320	19,234,519	(514,199)
Contingency (12%)	2,246,438	n/a	2,246,438
Total	**$20,966,758**	**$19,234,519**	**$1,732,239**

Because the not-to-exceed amount under the proposed contract between DPH and Canyon Manor exceeds the needed amount, as shown in Table 4 below, the Budget and Legislative Analyst recommends reducing the contract not-to-exceed amount by $1,438,721, from $27,969,568 to $26,530,847.

Table 4: Budget and Legislative Analyst's Recommended Reduction

Actual Expenditures as of June 30, 2013	$19,234,519
Proposed Expenditures July 1, 2013 to December 31, 2014	6,252,209
Contingency (12% of Expenditures July 1, 2013- December 31, 2014)	750,265
Cost of Living Adjustment (4.7%)	293,854
Total Recommended Not-to-Exceed Amount	**26,530,847**
Proposed Contract Not-to-Exceed Amount	27,969,568
Proposed Reduction in Not-to-Exceed Amount	**$ 1,438,721**

The proposed resolution gives incorrect amounts for the existing not-to-exceed amount and the increase in the not-to-exceed amount of the contract between DPH and Crestwood. Therefore, the proposed resolution should be amended to state the correct not-to-exceed amount of "$48,787,156" and the correct increase in the not-to-exceed amount of "$14,183,906".

RECOMMENDATIONS

1. Amend the proposed resolution to state: "Further Resolved, that the Board of Supervisors hereby authorizes the Director of Health and the Director of the Office of Contract Administration/Purchaser to make amendments to these contracts, as needed <u>that do not materially increase the obligations or liabilities of the City</u> (revised language underlined)";
2. Amend (1) Page 1, Line 14 of the proposed resolution to reflect the correct initial contract term of "four years and nine months," and (2) Page 2, Line 2 of the proposed resolution to reflect the correct contract total term of "six years and three months";
3. Amend the proposed resolution to state the correct not-to-exceed existing contract amount of $48,787,156 and the correct increase in the not-to-exceed amount of $14,183,906 in the contract between DPH and Crestwood;

4. Amend the proposed resolution to (1) provide for retroactive approval of the amendment to the existing contract between DPH and Crestwood to December 31, 2014, and (2) reduce the proposed not-to-exceed amount of the contract between DPH and Crestwood by $11,242,911, from $62,971,062 to $51,728,151;

5. Amend the proposed resolution to (1) provide for retroactive approval of the amendment to the existing contract between DPH and Canyon Manor to December 31, 2014, and (2) reduce the proposed not-to-exceed amount of the contract between DPH and Canyon Manor by $1,438,721, from $27,969,568 to $26,530,847; and

6. Approve the proposed resolution as amended.

Item 8 File 13-0645	Departments: Department of Public Health (DPH) and Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve the second amendment to the lease between the Department of Public Health (DPH), as tenant, and Ridgeway Apartments, as landlord, for mental health service clinic space at 760 Harrison Street, to extend the lease for a five-year term from July 1, 2013 through June 30, 2018.

Key Points

- In 1996, the Board of Supervisors approved a lease, from March 24, 1997 through June 30, 2012, between DPH and the KHC Investment Company (predecessor landlord), for approximately 9,250 square feet of clinic space at 720 Sacramento Street that included two five-year options to extend.
- On June 23, 2006, Ridgeway Apartments acquired the property at 720 Sacramento Street from KHC Investment Company.
- Due to administrative oversight, the City missed the opportunity to exercise the two five-year options to extend the initial lease by the June 30, 2012 termination date of the initial lease.
- On June 29, 2012 the Board of Supervisors approved a first amendment to the lease between the landlord, Ridgeway Apartments, and DPH for one year from July 1, 2012 through June 30, 2013, extending the base monthly rent under the existing lease of $18,645.
- Under the lease, DPH's Chinatown Child Development Center, which is part of DPH Community Programs – Community Behavioral Health Services, occupies the space.

Fiscal Impacts

- Under the proposed five-year amended lease, the annual rent is $323,760 with the monthly base rent of $26,980 for all five years of the amended lease, which is $8,335 or 44% more than the current monthly rent of $18,645 but is comparable to the market rates of properties in the surrounding area of 720 Sacramento Street.
- In addition to the first year annual rent of $323,760, DPH will incur an estimated annual operating costs of $6,475 and utility costs of $4,625, resulting in first year General Fund costs to DPH of an estimated $334,860. These funds are included in the FY 2013-14 and FY 2014-15 DPH budget, subject to Board of Supervisors approval.

Recommendations

- Amend the proposed resolution to approve the lease amendment retroactive to July 1, 2013.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Under Administrative Code Section 23.27, leases with a term of more than one year or rent of more than $5,000 per month, in which the City is the tenant, are subject to the Board of Supervisors approval, by resolution.

Background

In 1996, the Board of Supervisors approved a lease between the Department of Public Health (DPH), as tenant, and KHC Investment Company, as landlord, for 9,250 square feet of clinic space at 720 Sacramento Street from March 24, 1997 through June 30, 2012. The lease included two five-year options to extend. On June 23, 2006 Ridgeway Apartments acquired the property at 720 Sacramento Street from KHC Investment Company. Under the lease, DPH's Chinatown Child Development Center, which is part of DPH Community Programs – Community Behavioral Health Services, occupies the space.[1]

On June 29, 2012 the Board of Supervisors approved a first amendment to extend the lease between the landlord, Ridgeway Apartments, and DPH for one year from July 1, 2012 through June 30, 2013, with the existing base monthly rent of $18,645.

According to Ms. Claudine Venegas, Senior Real Property Officer, Real Estate Division, the one-year lease extension was necessary because the City missed the opportunity to exercise the two five-year options to extend the lease by the initial lease termination date of June 30, 2012, due to administrative oversight.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve the second amendment to extend the lease, for five years from July 1, 2013 through June 30, 2018 as follows:

[1] Chinatown Child Development Center (CCDC) is a comprehensive, outpatient community behavioral health clinic of the Department of Public Health, Community Programs – Community Behavioral Health Services (CBHS). The CCDC serves children and adolescents, age birth to 18 years, and their families who are residents of San Francisco. The clinic serves low-income families whose children have Medi-Cal, Healthy Families/Healthy Kids, or no insurance coverage. Students receiving special education services are provided free mental health services if found eligible through an assessment process conducted by the SF Unified School District.

Table 1: Summary of Proposed Second Lease Amendment at 720 Sacramento Street

Term	5 years (July 1, 2013 through June 30, 2018)
Square feet (approximate)	9,250
Rent per square foot per month Total rent per month Total annual rent	Approximately $2.92 $26,980 $323,760
Annual rent increases	None
Utilities and services	The lease is fully serviced except for the separately metered utilities and prorata share of operating expenses paid by the City.[2]
Options to further extend	None

According to Ms. Venegas, monthly rent of $26,980 was negotiated by the Landlord and the Real Estate Division on behalf of the City at the fair market value of the subject property instead of 95% of the fair market value included in the two five-year options to extend the initial lease because the City missed the opportunity to exercise the options. Ms. Venegas reports that the monthly rent of $26,980, or approximately $2.92 per square foot, is comparable to the market rates of properties in the surrounding area of 720 Sacramento Street.[3]

The leased space would continue to be used to provide behavioral health clinic services for DPH's Chinatown Child Development Center.

FISCAL IMPACTS

Under the proposed five-year lease amendment, the monthly base rent of $26,980, or approximately $2.92 per square foot per month, for all five years of the amended lease is $8,335 or 44.7% more than the current monthly rent of $18,645. According to Ms. Venegas, monthly rent of $26,980 was negotiated by the Landlord and the Real Estate Division on behalf of the City at the fair market value of the subject property instead of 95% of the fair market value that the City would otherwise have paid if the City had exercised the five-year option to extend the lease prior to the termination of the initial lease on June 30, 2012. Ninety-Five percent of fair market value of the leased premises is $2.77 per square foot per square foot per month, or approximately $0.15 less than the proposed rent of $2.92 per square foot per month. As previously noted, the original lease included two five-year options, which were inadvertently not extended under the original lease. Had the five-year option been exercised, the City would have saved approximately $83,250 over the proposed five-year period.

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[2] Under the amended lease, DPH's percentage share of property taxes and other operating costs is 74% over the base year costs; however, in no event shall DPH's percentage share for any expense year exceed 2% of the annual rent.

[3] According to Ms. Claudine Venegas, Senior Real Property Officer, Real Estate Division, based on the mid-year CoStar Office Report for the San Francisco office market, the subject property falls within the San Francisco Downtown North submarket cluster and the CoStar report quoted rate for this area is $35.97 annually or approximately $2.98 per square foot monthly.

As shown in Table 2 below, the first year total rent and operating costs are $334,860. Total General Fund monies of $334,860 are included in DPH's FY 2013-14 budget as previously approved by the Budget and Finance Committee of the Board of Supervisors.

Table 2: Total First Year Costs for the DPH Lease at 720 Sacramento Street
From July 1, 2013 through June 30, 2014

Rent – Approximately $35 per square foot for 9,250 square feet	$323,760
Electricity – Estimated $0.50 per square foot	4,625
Estimated Operating Expenses and Taxes – $0.70 per square foot	6,475
Total First Year Costs	**$334,860**

According to Ms. Venegas, the operating costs may increase during the five-year term as a result of higher costs for services due to inflation and the 2 percent annual adjustment to the assessed value for Property Taxes.

RECOMMENDATIONS

1. Amend the proposed resolution to approve the lease amendment retroactive to July 1, 2013.
2. Approve the proposed resolution, as amended.

Items 12 and 13 **Files 13-0653 and 13-0654** ***(Continued from July 10, 2013)***	**Department** Health Service System (HSS)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance (File 13-0653) would amend Administrative Code Section 16.703, establishing the Health Service System's 2014 health, vision, and dental plans and premiums.
- The proposed resolution (File 13-0654) would approve the 2014 employers' contribution of $559.65 per member per month to the Health Service System Trust Fund.

Fiscal Impacts

- In accordance with the City's Charter, the Health Service Board is required to conduct a survey of the ten most populous California counties each year to determine the average of the health premium contributions made by the ten counties. Based on this survey, the average 2014 contribution is $559.65 per member per month, which is $24.87 or 4.65 percent more than the ten-county average contribution of $534.78 in 2013.
- However, the City's monthly health premium contributions for employees is proposed to be (a) $1,046.99 for the City's Health Plan, a 16.84% reduction, (b) $562.30 for Kaiser, a 4.71% increase, and (c) $612.56 for Blue Shield, a 5.3% reduction.
- The total costs for the City, employees, retirees, and their dependents of $595,803,151 in 2014 for health, vision, dental, long-term disability and life insurance, is $4,054,015, or 0.7 percent more than the $591,749,136 costs for these plans in 2013.
- Of the total 2014 costs of $595,803,151, the City's costs (excluding employee or retiree contributions) are $523,163,928, or approximately 87.8 percent of the total costs.
- Health premiums in 2014 will be increased by federal fees and taxes from legislation including the Patient Protection and Affordable Care Act.
- Health premium contributions in 2014 will be affected by cost-sharing agreements that were negotiated between the City and various City unions in 2012.

Recommendations

- Approve the proposed ordinance (File 13-0653) to amend Administrative Code Section 16.703, establishing the Health Service System's 2014 health, vision, and dental plans and premium contribution rates.
- Approve the proposed resolution (File 13-0654), setting the City's 2014 average contribution to the Health Service System Trust Fund under Charter Section A8.428 in the amount of $559.65 per member per month.

MANDATE STATEMENT/BACKGROUND

The Health Service Board oversees the Health Service System (HSS). The HSS administers non-pension benefits, including health, dental, vision, and other benefits that may be available to City employees, such as life and long term disability insurance.

The Health Service Board adopts the annual health, vision, and dental plans, and the respective plan premiums and premium equivalents paid by employers and members.

- HSS employers include the City and County of San Francisco (City), the San Francisco Unified School District (SFUSD), the San Francisco Community College District (SFCCD), and the San Francisco Superior Court (Superior Court).

- HSS members are active and retired employees of the above noted employers, their dependents, and members of eligible boards and commissions. Dependents include children, spouses, domestic partners, surviving spouses of deceased members, and other legal dependents.

Under City Charter Section A8.423, the Health Service Board is required to (a) conduct a survey of the ten most populous California counties each year, excluding San Francisco, and (b) determine and set the health plan premiums paid by the City, employees, and retirees. In accordance with Section A8.423 of the City's Charter, the City's contribution to the Health Service System Trust Fund is based on the average of the contributions made by each of the ten counties.

The 10-County "average contribution" in 2014 is $559.65, which is $24.87 or 4.65 percent more than the 10-County "average contribution" of $534.78 in 2013.

DETAILS OF PROPOSED LEGISLATION

File 13-0653: The proposed ordinance would amend Administrative Code Section 16.703 to approve the Health Service Systems' 2014 health, vision, and dental plans and premiums, and life insurance and long term disability insurance.

File 13-0654: The proposed resolution would approve the City's 2014 contribution to the Health Service System Trust Fund, under Charter Section A8.4289, at $559.65 per member per month.

Proposed Health Plans

On June 13, 2013, the Health Service Board approved the subject health, vision, and dental plans and monthly premiums for 2014 as follows:

City Plan Preferred Provider Organization (PPO)[1]

The City Plan is a self-funded plan administered by United HealthCare (UHC). The Health Service Board adopted no plan design changes to the City Plan in 2014.

Kaiser and Blue Shield Health Maintenance Organizations (HMO)[2]

Consistent with the 2013 plan year, two HMOs will be offered to HSS members for the 2014 plan year; Kaiser and Blue Shield of California. The Blue Shield HMO plan is a flex-funded product for active and early retiree members. The Health Service Board adopted no plan design changes to the Kaiser HMO or the Blue Shield HMO.

Vision Plans

Members enrolled in one of the three health plans receive vision benefits through Vision Service Plan (VSP), a third party insurer. The VSP plan is a fully-insured plan. The 2014 rates will increase 5.5% which includes 2% due to federal healthcare reform taxes. The cost of the vision plan is added to the cost of the medical plan for all monthly health plan premiums.

Sources of Health Plan Premium Increases

The following two major changes will affect health plan premiums and the payment of these premiums in 2014.

(1) The premiums covered by the employer for each health plan will vary according to union membership of the covered employee as per negotiated Memorandum of Understanding (MOU) agreements (please see section entitled, ‘Changes in Contribution Strategy’, below).

(2) Federal healthcare reform will add fees and taxes to the premium calculation (please see section entitled, ‘Impacts of Federal Legislation’, below).

According to Mr. Gregg Sass, Interim CFO at HSS, all other changes in premiums are a result of health plan premium increases and/or savings from under-utilization.

Changes in Contribution Strategy

Changes in City and County (CCSF) Contribution Strategy

Historically, active CCSF employees have paid nothing for employee-only health and dental insurance coverage. Starting January 1, 2014, in accordance with some union MOU agreements[3],

[1] Under a PPO, physicians, hospitals, and other providers contract with a third-party administrator or insurer to provide health care at reduced rates to members.
[2] An HMO offers care through a closed panel of providers, in which members select a primary care physician, who coordinates care to direct access to medical services.
[3] According to Mr. Sass, this negotiated change would impact approximately 7,800 employee-only members, which is approximately 70% of active employee-only members, by July 1, 2014. The Health Service Board approved two sets of rates to reflect this change in 2014. One set of rates is for members under this new ‘90/10 Contribution Model’, and the other set of rates is for members under the existing contribution model.

the employee contribution amount will increase to a maximum of 10 percent of the premium. This contribution calculation is called the ‘90/10 Contribution Model’.

Under the ‘90/10 Contribution Model’, the City will contribute the greater of the 10-County average amount ($559.65) or 90 percent of the employee-only premium for active employees in the Kaiser and Blue Shield populations. For active employee-only members in the City Plan, the City will contribute 90 percent of the Blue Shield employee-only premium plus one-half of the difference between 90 percent of the Blue Shield employee-only premium and 100 percent of the City Plan employee-only premium. This change applies only to those employees that do not have dependent coverage.

The City Charter states, in Section A8.423, “the average contribution made with respect to each employee by said 10 counties toward the health care plans provided for their employees ... **shall be ‘the average contribution’**.” According to Mr. Jon Givner, Deputy City Attorney, the Charter provides the amount that must be contributed to the Health Service System Trust Fund by the City, but that amount is not a ceiling and the City could agree to pay additional amounts to fund employee health care under an MOU with a union representing City employees.

HSS Subsidy Option

On June 14th, 2013, the Health Service Board approved another set of rates for any union that approves an MOU agreement with the City by July 31, 2013 for a different (flat premium) employee contribution amount for 2015. This flat premium would reflect a trust-funded subsidy for the employee-only employee contribution amount under the ‘90/10 Contribution Model’. The subsidy would smooth member transition to the 2015 contribution model. Unlike the ‘90/10 Contribution Model’, which applies to employee-only members in Blue Shield and the City Plan only, the flat premium would apply to all members of all three plans, including Kaiser. Participation would be broader but the required contribution by individual members would be lower than under the ‘90/10 Contribution Model’. The San Francisco Department of Human Resources is currently involved in MOU negotiations to define the specific rates for this subsidy option.

City’s Monthly Premium Costs

As previously noted, the 10-County average determined that the City contribution to the Health Service System Trust Fund in 2014 would be $559.65 per month. However, Table 1 below shows a “blended” rate for each of the three health plans for 2014 which is a weighted calculation of the City’s contribution payment for active employees based on the proportion of employees subject to the ‘90/10 Contribution Model’ versus the proportion of employees subject to the original rate schedule.

Table 1
Total Monthly Employer Rate for Active Employees in 2014

	2013	2014 Proposed	Increase	Percent Change
City Health Plan	$1,258.97	$1,046.99	($211.98)	(16.84%)
Kaiser	$537.02	$562.30	$25.28	4.71%
Blue Shield	$647.16	$612.56	($34.60)	(5.35%)

Proposed Health Plan Premiums

City Health Plan Premiums

The City Health Plan is self-funded. Amounts to cover premiums are deposited into the Health Service System Trust Fund and used to pay claims. Monthly premium amounts are based on claims experience for each type of plan member: active employees, retirees with Medicare, and retirees without Medicare.

The blended monthly employer rate, or amount that the City will pay, for single employees will decrease by 16.84 percent in 2014, as shown above in Table 1. This decrease is because of utilization savings in prior years, which appears as a rate reduction in 2014.

Under the City Health Plan, employee premiums will decrease in 2014 by approximately 2.7 percent overall, mainly because of prior-year utilization savings and the ‘90/10 Contribution Model’.

Kaiser Premiums

The Kaiser Plan blended monthly employer rate for single employees will increase in 2014 by 4.71 percent, as shown in Table 1 above. Under the Kaiser plan, employee premiums will increase in 2014 by approximately 5.2 percent overall. These premium increases reflect new federal healthcare reform as well as administrative cost increases at Kaiser.

Blue Shield Premiums

The Blue Shield Plan blended monthly employer rate for single employees will decrease by 5.35 percent in 2014, as shown in Table 1 above. This is because of the ‘90/10 Contribution Model’ and slightly lower average utilization than expected. Under the Blue Shield plan, employee premiums will stay flat in 2014 except for retiree premiums, which will increase by approximately 6 percent because of federal healthcare reform and health cost increases.

Proposed Dental Plans

The Health Service System offers three dental plans, including one PPO, Delta Dental PPO, and two HMOs: Delta Care USA and Pacific Union Dental. There are no plan changes in the dental plans.

The City does not contribute to the monthly dental premium for retired employees. The City contributes the full monthly premium for active employees for the two HMOs and also contributes part of the monthly premium for active employees for Delta Dental PPO. As shown in Table 2 below, the City's contribution to premiums will increase up to 4.2% in 2014 for all dental plans except for Pacific Union Dental, whose premiums remain unchanged from 2013.

Table 2
Total Monthly Dental Premiums

	2014	2013	Increase/ Decrease	Percent
Delta Care USA HMO				
Single Employee	$26.95	$26.00	$0.95	3.7%
Employee + One Dependent	$44.46	$42.90	$1.56	3.6%
Employee + Two or More Dependents	$65.76	$63.45	$2.31	3.6%
Pacific Union Dental HMO				
Single Employee	$27.80	$27.80	$0.00	0.0%
Employee + One Dependent	$45.90	$45.90	$0.00	0.0%
Employee + Two or More Dependents	$67.86	$67.86	$0.00	0.0%
Delta Dental PPO				
Single Employee (Total Premium)	$65.95	$63.47	$2.48	3.9%
Less Employee Contribution	($5.00)	($5.00)	$0.00	0.0%
City's Contribution	$60.95	$58.47	$2.48	4.2%
Employee + One Dependent (Total Premium)	$138.49	$133.29	$5.20	3.9%
Less Employee Contribution	($10.00)	($10.00)	$0.00	0.0%
City's Contribution	$128.49	$123.29	$5.20	4.2%
Employee + Two or More Dependents (Total Premium)	$197.84	$190.42	$7.42	3.9%
Less Employee Contribution	($15.00)	($15.00)	$0.00	0.0%
City's Contribution	$182.84	$175.42	$7.42	4.2%

Contingency and Stabilization Amounts

The HSS sets aside a portion of the Trust Fund balance[4] to provide contingencies for the self-funded dental plan, Delta Dental PPO, and to stabilize employees' dental plan premium increases. The member contributions for Delta Dental PPO plan for retirees, Delta Care USA dental plans for employees and retirees, and Pacific Union Dental plans for employees and retirees remain unchanged from the prior plan year. Pursuant to the Health Service's Self-Funded Plans' Funding Policy, no claims stabilization amount has been applied this year.

Life and Long Term Disability Insurance

The Health Service System will continue its contract with Aetna Life Insurance Company in 2014. In January 2013, Aetna Life Insurance Company was selected through a Request for Proposal (RFP) process to provide life and long term disability insurance to City employees eligible for coverage through their MOUs between the City and the respective unions.

[4] The Employee Benefit Trust Fund is funded via payroll deductions and employer contributions. Those amounts are paid into the Trust Fund and premiums are paid by the Trust Fund. The fund balance is what remains after accruing all liabilities for unpaid premiums and incurred but not reported expenses of self-insurance programs. As of June 30, 2012, the fund balance in the Trust Fund was $53.2M, which is projected to increase to $69.5M by June 30, 2013.

Impacts of Federal Legislation

As of January 1, 2014, a provision of the Federal Patient Protection and Affordable Care Act (PPACA) will take effect, introducing the Federal PPACA Legislative Fees. Implementation of another provision previously scheduled to take effect in 2014, the Federal PPACA Full Time Employee requirements, has been deferred by the federal government until 2015. Both of these provisions are briefly summarized below. Implementation of an additional provision, Federal PPACA Automatic Enrollment, has also been deferred because the Department of Labor stated that it will not issue final guidance on Automatic Enrollment until 2014. In addition to Federal PPACA requirements, the 2009 American Recovery and Reinvestment Act established a temporary Early Retiree Reinsurance Program (ERRP), also summarized below.

Federal PPACA Full Time Employee requirements

A current assessment by HSS indicates that no additional payments will be incurred under this federal legislation because both the City and the Superior Courts offer coverage to all full time employees. HSS is still working with the San Francisco Community College District (SFCCD) and the San Francisco Unified School District (SFUSD) and to assess their compliance with federal PPACA requirements. On July 2, 2013 this PPACA requirement was deferred until 2015.

Federal PPACA Legislative Fees

As a result of the federal PPACA, there are two direct fees and one tax that have been factored into the calculation of medical premium rates and premium equivalents for the 2014 plan year. The three fees are the Health Insurer Tax (HIT), Patient Centered Outcomes Research Institute (PCORI) fee, and the Transitional Reinsurance fee. Table 3 (below) summarizes the estimated cost of each of these legislative fees for 2014 for the City and County of San Francisco.[5]

Table 3
Federal PPACA Legislative Fees and Taxes ($ Millions) in 2014

	HIT	PCORI	Transitional Reinsurance	**Total**
City Plan (UHC)	$0.00	$0.01	$0.13	**$0.14**
Kaiser	$2.15	$0.09	$2.10	**$4.33**
Blue Shield	$6.27	$0.07	$1.91	**$8.26**
Delta	$0.00	N/A	N/A	**$0.00**
VSP	$0.07	N/A	N/A	**$0.07**
Total	**$8.49**	**$0.18**	**$4.13**	**$12.80**

[5] The HSS Trust Fund serves four employers: The City and County of San Francisco, the Superior Courts, San Francisco Community College District and the San Francisco Unified School District (CCSF, CRT, SFCCD, and SFUSD). The costs shown in Table 3 reflect only those PPACA charges incurred by CCSF.

Early Retiree Reinsurance Program Reimbursements

The 2009 American Recovery and Reinvestment Act established the temporary Early Retiree Reinsurance Program (ERRP) as an incentive for employers to continue early retiree health insurance coverage. This program provided federal reimbursement to eligible sponsors of employment-based plans for a portion of the costs of providing health coverage to early retirees, during the period beginning on the date the program was established, and ending on December 31, 2013. The total ERRP amount received by HSS from the federal government with interest is $3,812,749. A plan sponsor may use these ERRP reimbursements to reduce the sponsor's health benefit premiums or costs, to reduce costs for plan participants, or to reduce any combination of these costs.

However, ERRP regulations stipulate a Maintenance of Contribution (MOC), requiring that the City continue to provide at least the same level of contribution to support each plan if any of the reimbursement funds are used to offset City costs, rather than exclusively used to offset employee contributions.

On January 10, 2013, the Health Service Board approved spending the ERRP reimbursement funds exclusively to reduce participant premium contributions in order to decrease both participant and employer premiums through stabilizing membership and premium rates, which will allow HSS to bypass the MOC calculation requirements. The Health Service Board also approved apportioning the ERRP reimbursement funds based on the amount of premiums paid into each plan in proportion to each set of rates paid in 2013.

FISCAL ANALYSIS

The City's cost for health and other plans is funded by charges to each City Department for the cost of employee benefits.

As shown in Table 4 below, the total City, employee, and retiree costs for the health, vision, and dental plans, and long-term disability and life insurance will increase to $595,803,151 in 2014, which is a $4,054,015, or 0.7 percent increase from $591,749,136 in FY 2013.

Table 4
Total Health and Other Plan Costs for the City, Employees, and Retirees in 2014 Compared to 2013

	2013	2014	Increase/ (Decrease)	Percent
City Costs Only				
Kaiser HMO	$213,512,253	$227,362,649	$13,850,396	6.5%
Blue Shield HMO	220,221,904	218,316,125	(1,905,779)	-0.9%
City Plan	48,002,758	40,740,923	(7,261,834)	-15.1%
Subtotal Health and Vision Plan	481,736,914	486,419,697	4,682,783	1.0%
Dental	31,123,486	31,959,386	835,900	2.7%
Long Term Disability and Life Insurance	4,784,845	4,784,845	0	0.0%
Total City Costs	**$517,645,245**	**$523,163,928**	**$5,518,683**	**1.1%**
Employee and Retiree Costs Only				
Kaiser HMO	$21,223,163	$23,124,625	$1,901,462	9.0%
Blue Shield HMO	37,951,651	36,603,898	(1,347,753)	-3.6%
City Plan	12,285,682	10,267,304	(2,018,378)	-16.4%
Subtotal Health and Vision Plan	71,460,496	69,995,828	(1,464,668)	-2.0%
Dental	2,582,155	2,582,155	0	0.0%
Long Term Disability and Life Insurance	61,240	61,240	0	0.0%
Total Employee and Retiree Costs	**$74,103,891**	**$72,639,223**	**($1,464,668)**	**-2.0%**
Total Costs				
Kaiser HMO	$234,735,416	$250,487,274	$15,751,859	6.7%
Blue Shield HMO	258,173,555	254,920,023	(3,253,532)	-1.3%
City Plan	60,288,439	51,008,228	(9,280,212)	-15.4%
Subtotal Health and Vision Plan	553,197,410	556,415,525	3,218,115	0.6%
Dental	33,705,642	34,541,541	835,900	2.5%
Long Term Disability and Life Insurance	4,846,084	4,846,084	0	0.0%
Total Costs	**$591,749,136**	**$595,803,151**	**$4,054,015**	**0.7%**

Of the total 2014 costs of $595,803,151 shown in Table 4 above, the City's total costs (excluding employee or retiree contributions) is $523,163,928, or approximately 87.8 percent of the total costs. Overall, the City's total cost of $523,163,928 in 2014 for the health, vision, and dental plans, and long-term disability and life insurance, is $5,518,683, or 1.1 percent more than the costs for these plans in 2013 of $517,645,245.

RECOMMENDATIONS

- Approve the proposed ordinance (File 13-0653) to amend Administrative Code Section 16.703, establishing the Health Service System's 2014 health, vision, and dental plans and premiums.
- Approve the proposed resolution (File 13-0654), setting the City's 2014 contribution to the Health Service System Trust Fund, under the Charter, of $559.65 per member per month.