

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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June 4, 2021

**TO:** Government Audit and Oversight Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** June 11, 2021 Special Government Audit and Oversight Committee Meeting

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<b>Items 5 &amp; 6</b> <b>Files 21-0413 &amp; 21-0414</b>	<b>Department:</b> Department of Public Health (DPH)
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolutions would approve contracts between the Department of Public Health (DPH) and Medline Industries, Inc. for medical, surgical, and laboratory supplies distribution and required associated services for (i) bulk purchases, for an amount not to exceed \$115,072,061 (File 21-0413) and (ii) low unit of measure purchases, for an amount not to exceed \$178,218,296 (File 21-0414), for terms of five years from July 2021 through June 2026, with an option to holdover one year through June 2027, as well as an option to extend four years through June 2030.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In 2011, the Group Purchasing Organization (GPO) Vizient conducted a Request for Proposals (RFP) and awarded pricing agreements with three national and seven regional medical supply distributors, including the national distributor Medline. DPH, which is a member of Vizient, determined that Medline would provide the lowest costs to DPH.</li> <li>• DPH has agreed to two contracts with Medline. File 21-0413 would approve a contract for bulk purchases, which are defined as purchases made in whole units of measures, such as a case or box. File 21-0413 would approve a contract for low units of measures, which are purchases made by the “each.” Supplies would be purchased for San Francisco General Hospital (SFGH), Laguna Honda Hospital (LHH), and various neighborhood clinics.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The proposed contracts with Medline would have total costs not to exceed \$115,072,061 for the bulk purchase contract (File 21-0413) and \$178,218,296 for the low unit of measure contract (File 21-0414), for a total amount not to exceed \$293,290,357.</li> <li>• The contracts include holdover amounts equal to 10 percent greater than FY 2025-26 projected expenditures, or \$20,868,989 for the bulk purchase contract and \$32,906,746 for the low unit of measure contract. Since this amount is not intended to be spent during the initial five-year contract terms, the Budget and Legislative Analyst recommends reducing the not-to-exceed amounts of the proposed contracts to eliminate the holdover amounts.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution as follows: (i) amend File 21-0413 to reduce the not-to-exceed amount of the contract by \$20,868,989, for a total not to exceed \$94,203,072; and (ii) amend File 21-0414 to reduce the not-to-exceed amount of the contract \$32,906,746, for a total not to exceed \$145,311,550.</li> <li>• Approve the resolutions, as amended.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

## BACKGROUND

The Department of Public Health (DPH) has the ongoing need for medical, surgical, and laboratory supplies for use in the daily delivery of care to patients of various programs. Administrative Code Chapter 21A.2 authorizes DPH to join Group Purchasing Organizations (GPOs) to procure goods and services at discounted rates. Since 1997, DPH has been a member of the GPO Vizient, which serves approximately 95 percent of academic medical centers and 50 percent of acute care health systems in the United States.

According to Ms. Daisy Aguallo, San Francisco Health Network Supply Chain Director, Vizient issued a Request for Proposals (RFP) in 2011 to award pricing agreements with national and regional medical supply distributors. Based on the RFP, Vizient awarded contracts to three national distributors, including Medline Industries, Inc., and seven regional distributors. In 2012, Vizient invited these distributors to submit a best-and-final offer for pricing to Vizient members. Following the RFP, DPH undertook a second round evaluation process based on DPH's specific scope of work. DPH determined that while all three national distributors provided better terms than the previous vendor, contracting with Medline would provide the lowest costs to DPH.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve contracts between DPH and Medline for medical, surgical, and laboratory supplies distribution and required associated services for (i) bulk purchases, for an amount not to exceed \$115,072,061 (File 21-0413), and (ii) low unit of measure purchases, for an amount not to exceed \$178,218,296 (File 21-0414).

Both contracts would have a term of five years, from July 2021 through June 2026, with an option to holdover one year through June 2027, as well as an option to extend four years through June 2030. According to the proposed contracts, the City must begin the process to extend or replace the contracts one year prior to the end date in June 2026, and if the City does not extend the contract, the 12-month holdover period would apply, in which charges for purchases through Medline are outlined in an appendix to the contract.

The two contracts are differentiated by the quantities of items purchased. Bulk purchases are defined as purchases made in whole unit of measures, such as a case or box. Bulk orders are predominantly for the central supplies of the hospitals and allow for the decreased risk of shortages and quick replenishment when demand can fluctuate. Low unit of measure purchases are purchases made by the "each." These purchases allow for cost avoidance and the sustained and continual replenishment of stock. Bulk purchases, which have a minimum order amount of \$750, are charged less of a fee due to there being less work in the handling of the products.

Supplies would be purchased for San Francisco General Hospital (SFGH), Laguna Honda Hospital (LHH), and various neighborhood clinics.

According to Ms. Aguallo, DPH will be monitoring pricing and ensuring compliance with pricing via contractually mandated Quarterly Business Reviews, which will monitor the expense of the contract to ensure it aligns with Board of Supervisor approved spend limits.

According to Ms. Aguallo, the “required associated services” described in the proposed resolutions refer to ancillary and support work performed by the vendor’s employees, including drivers, staff within the facilities packing supplies, and account managers to service the account.

### **FISCAL IMPACT**

The proposed contracts with Medline would have total costs not to exceed \$115,072,061 for the bulk purchase contract (File 21-0413) and \$178,218,296 for the low unit of measure contract (File 21-0414), for a total amount not to exceed \$293,290,357. The estimated costs for the two contracts are shown in Table 1 below.

**Table 1: Estimated Contract Budgets**

<b>Bulk Purchases (File 21-0413)</b>						
<b>Item</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>Total</b>
SFGH Spend	\$7,250,000	\$7,975,000	\$8,772,500	\$9,649,750	\$10,614,725	\$44,261,975
SFGH Fees	72,500	79,750	87,725	96,498	106,147	442,620
SFGH Taxes	652,500	717,750	789,525	868,448	955,325	3,983,588
LHH Spend	4,500,000	4,950,000	5,445,000	5,989,500	6,588,450	27,472,950
LHH Fees	45,000	49,500	54,500	59,895	65,885	274,730
LHH Taxes	405,000	445,500	490,050	539,055	592,961	2,472,566
Clinics Spend	30,000	33,000	36,300	39,930	43,923	183,153
Clinics Fees	300	330	363	399	439	1,832
Clinics Taxes	2,700	2,970	3,267	3,594	3,953	16,484
<b>Subtotal</b>	<b>\$12,958,000</b>	<b>\$14,523,800</b>	<b>\$15,679,180</b>	<b>\$17,247,098</b>	<b>\$18,971,808</b>	<b>\$79,109,886</b>
Emergency Surge						5,000,000
Contingency (12%)						10,093,187
Holdover Amount						20,868,989
<b>Total Not to Exceed</b>						<b>\$115,072,061</b>
<b>Low Unit of Measure (File 21-0414)</b>						
<b>Item</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>Total</b>
SFGH Spend	\$14,200,000	\$15,620,000	\$17,182,000	\$18,900,200	\$20,790,220	\$86,692,420
SFGH Fees	142,000	156,200	171,820	189,002	207,902	866,924
SFGH Taxes	1,278,000	1,405,800	1,546,380	1,701,018	1,871,120	7,802,318
LHH Spend	4,350,000	4,785,000	5,263,500	5,789,850	6,368,835	26,557,185
LHH Fees	43,500	47,850	52,635	57,899	63,688	265,572
LHH Taxes	391,500	430,650	473,715	521,087	573,195	2,390,147
Clinics Spend	25,000	27,500	30,250	33,275	36,603	152,628
Clinics Fees	250	275	303	333	366	1,526
Clinics Taxes	2,250	2,475	2,723	2,995	3,294	13,736
<b>Subtotal</b>	<b>\$20,432,500</b>	<b>\$22,475,750</b>	<b>\$24,723,325</b>	<b>\$27,195,658</b>	<b>\$29,915,223</b>	<b>\$124,742,456</b>
Emergency Surge						5,000,000
Contingency (12%)						15,569,095
Holdover Amount						32,906,746
<b>Total Not to Exceed</b>						<b>\$178,218,296</b>

DPH estimates that expenditures would increase 10 percent annually due to anticipated increase in demand, cost of goods, and transition from third-party suppliers to Medline as the supplier for various services and commodities. The contracts each include \$5,000,000 for emergency surge purchases, to enable DPH to continue procuring goods and supplies in an unanticipated emergency.

The contracts also include holdover amounts equal to 10 percent greater than FY 2025-26 projected expenditures, or \$20,868,989 for the bulk purchase contract and \$32,906,746 for the low unit of measure contract. The holdover amounts, which are in addition to the \$5,000,000 emergency surge amounts and 12 percent contingencies, are intended to provide uninterrupted services for one year if time is needed to find a new vendor at the end of the contract term. Since this amount is not intended to be spent during the initial five-year contract terms, the Budget and Legislative Analyst recommends reducing the not-to-exceed amounts of the proposed contracts to eliminate the holdover amounts.

**RECOMMENDATIONS**

1. Amend the proposed resolution in File 21-0413 to reduce the not-to-exceed amount of the contract by \$20,868,989 for the holdover period pending future Board of Supervisors approval, for a total not to exceed \$94,203,072.
2. Amend the proposed resolution in File 21-0414 to reduce the not-to-exceed amount of the contract \$32,906,746 for the holdover period pending future Board of Supervisors approval, for a total not to exceed \$145,311,550.
3. Approve the resolutions as amended.