

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Government Audit and Oversight Committee

FROM: Budget and Legislative Analyst



SUBJECT: June 1, 2023 Government Audit and Oversight Committee Meeting

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Item 1 File 23-0537	Department: Department of Public Health (DPH)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> The proposed resolution would approve Amendment No. 2 to the fiscal intermediary check-writing services agreement between the Department of Public Health (DPH) and HealthRIGHT 360 (HR 360), extending the term by two years and six months through December 2025, and increasing the not-to-exceed amount by \$60,650,012, for a total not to exceed \$107,416,172. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> After conducting a Request for Proposals (RFP) process, DPH awarded a fiscal intermediary check-writing services contract to HR 360 for a term of seven months, from January 2021 through July 2021, and an amount not to exceed \$9,987,371. In November 2021, the Board of Supervisors retroactively approved Amendment No. 1 to the contract, extending the term by one year and 11 months through June 2023, and increasing the not-to-exceed amount by \$36,778,789, for a total not to exceed \$46,766,160. Under the contract, HR 360 provides check writing fiscal intermediary services for DPH Behavioral Health Services Division providers. Fiscal intermediary services are needed because many mental health service providers are not contracted with DPH and hence are not considered “vendors” in the City’s financial system. These include out of network providers for San Francisco Mental Health Plan members, licensed residential care facilities (including board and care operators), wrap around services for mental health clients, workforce development and training, other mental health and substance use disorder consultation, and hospital payments for psychiatric emergency and eating disorders. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> The proposed Amendment No. 2 would increase the not-to-exceed amount of the contract by \$60,650,012, for a total not to exceed \$107,416,172. DPH that HR 360 will write approximately 1,600 checks per year, with annual payment amounts totaling \$22 million to \$23 million per fiscal year. The rate at which DPH reimburses HR 360 (acting as fiscal agent) is \$22 per check. Therefore, the added cost to the City for fiscal intermediary services would be approximately \$35,200 per year, or \$88,000 for the 2.5-year extension term. DPH estimates that approximately 90 percent of expenditures would be funded by the City’s General Fund, 10 percent from state funds, and one percent from federal funds. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> Approve the proposed resolution. 	

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

In December 2019, the Department of Public Health (DPH) issued a Request for Proposals (RFP) for fiscal intermediary check-writing services for behavioral health service providers. HealthRIGHT 360 (HR 360) was the only respondent to the RFP and was deemed to meet the minimum qualifications and was awarded a contract. In January 2021, DPH executed a contract with HR 360 for a term of seven months, from January 2021 through July 2021, and an amount not to exceed \$9,987,371. In November 2021, the Board of Supervisors retroactively approved Amendment No. 1 to the contract, extending the term by one year and 11 months through June 2023, and increasing the not-to-exceed amount by \$36,778,789, for a total not to exceed \$46,766,160 (File 21-0009).¹

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 2 to the fiscal intermediary check-writing services agreement between DPH and HR 360, extending the term by two years and six months through December 2025, and increasing the not-to-exceed amount by \$60,650,012, for a total not to exceed \$107,416,172. The proposed resolution would also authorize DPH to make further immaterial amendments to the agreement.

Services Provided

Under the agreement, HR 360 provides check-writing services for the Behavioral Health Services Division of DPH. The arrangement involves HR 360 making upfront payments to service providers that do not have a contract with the City and then submitting invoices to DPH for reimbursement. In order to be eligible for reimbursement, providers must follow DPH Behavioral Health Services policies and procedures for safety, privacy, and adequacy of service.

Under the contract, HR 360 serves as a fiscal intermediary providing reimbursement to providers of the following services:

- Specialty mental health service providers who serve San Francisco Mental Health Plan members who reside in other California counties who have emergency or urgent care needs;

¹ DPH had originally awarded HR 360 a five-year contract with an amount not to exceed \$93,056,085, but requested to delay Board of Supervisors approval so the City Attorney's Office could conduct additional review. DPH executed an interim contract to ensure for the continuation of check-writing services. DPH requested retroactive approval of Amendment No.1 because it prioritized contracts related to the City's pandemic response.

- Licensed residential care facilities, including board and care operators;
- Wrap around services for mental health clients, including expenses such as emergency housing and food, transportation, clothing, and vocational training;
- Emergency stabilization housing services for homeless clients;
- Workforce development and training; and
- Other mental health and substance use disorder consultations, and hospital payments for psychiatric emergency and eating disorders.

According to Michelle Ruggels, DPH Business Office Director, fiscal intermediary services are needed because many mental health service providers are not contracted with DPH and hence are not considered “vendors” in the City’s financial system. As shown above, these include out of network providers for San Francisco Mental Health Plan members. In addition, smaller providers, such as residential care facilities and hotel providers, lack the capacity to contract with City and instead enter into agreements with the City that provide for reimbursement rates for services, which are then billed to the City via HR 360.

The contract requires HR 360 to provide to DPH a monthly report of all checks issued. The DPH Business Office accounting staff are responsible for ensuring billing statements submitted by provider entities are accurate and reflect services actually provided to clients.

Fiscal and Performance Monitoring

DPH’s review of HR 360 as part of the Citywide Nonprofit Monitoring and Capacity Building Program in FY 2021-22 did not result in any findings. DPH’s Business Office of Contract Compliance also reviewed HR 360’s financial statements and has rated it a “moderate risk” agency. HR 360 carries large amounts of debt and has reported annual deficits of approximately \$1 million from FY 2017-18 through FY 2021-22 on an accrual basis of accounting. However, HR 360 has positive cash flow on a cash basis, through FY 2020-21, though not in FY 2021-22, when it had negative cash flow of \$430,000. The discrepancy in the accrual versus cash basis of accounting financial results is because HR 360 is not generating enough revenue to cover depreciation, a non-cash expense.² DPH notes that while this does not affect HR 360’s financial sustainability in the short term, not covering depreciation might cause financial distress in the long term if capital needs are not met.

DPH does not conduct performance monitoring for this contract because it is a pass-through service.

FISCAL IMPACT

² Depreciation refers to accounting for the value of a capital asset by recording a pro-rated expense over the life of the asset. For example, a capital asset valued at \$1,000 with a ten-year useful life would result in an annual depreciation expense of \$100.

The proposed Amendment No. 2 would increase the not-to-exceed amount of the contract by \$60,650,012, for a total not to exceed \$107,416,172. Actual and projected expenditures are shown in Exhibit 1 below.

Exhibit 1: Actual and Projected Contract Expenditures

Year	Amount
Actual Expenditures through FY 2022-23 ³	\$43,327,811
FY 2023-24 (Projected)	22,202,534
FY 2024-25 (Projected)	23,049,653
FY 2025-26 (6 Months, Projected)	11,969,564
Contingency (12% of Projected Expenditures)	6,866,610
Total Not-to-Exceed	\$107,416,172

Source: DPH

DPH estimates, on the basis of FY 2021-22 totals, that HR 360 will write approximately 1,600 checks per year, with annual payment amounts totaling \$22 million to \$23 million per fiscal year.⁴ The rate at which DPH reimburses HR 360 (acting as fiscal agent) is \$22 per check. Given that DPH estimates that HR 360 would execute approximately 1,600 annual payments, the added cost to the City for fiscal intermediary services would be approximately \$35,200 per year, or \$88,000 for the 2.5-year extension term.⁵

DPH estimates that approximately 90 percent of expenditures would be funded by the City's General Fund, 10 percent from state funds, and one percent from federal funds.

RECOMMENDATION

Approve the proposed resolution.

³ This amount includes actual expenditures of \$21,125,277 through FY 2021-22 and projected expenditures of \$22,202,534 for FY 2022-23.

⁴ In FY 2021-22, HR 360 wrote 1,543 checks for a total of \$13,965,202. Director Ruggels notes that in FY 2022-23 to date, the total check number projects to be about the same, but the expenditures are higher due to more board and care spending.

⁵ The contract budget shows annual check fees of \$184,297, which would equate to 8,377 checks per year. According to Director Ruggels, this was a typo, and actually refers to the amount of substance abuse funding in the contract.