


**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** October 11, 2023 Budget and Finance Committee Meeting

**TABLE OF CONTENTS**

<b>Item</b>	<b>File</b>	<b>Page</b>
1	23-0865 Amendment of the Salary Ordinance for the Police Department - Fiscal Years 2023-2024 and 2024-2025 .....	1
3	23-0964 Agreement Amendment - Mission Neighborhood Health Center - HIV Health Services - Not to Exceed \$11,300,310.....	14
6	23-0692 Grant Amendment - Japanese Community Youth Council - Opportunities for All Intermediary Program - Not to Exceed \$13,727,411.....	21
7	23-0693 Grant Amendment - YMCA Urban Services - Truancy Assessment and Resource Center (TARC) Program - Not to Exceed \$5,390,219 .....	25
8	23-0908 Airport Professional Services Contract Modification - Dignity Health dba St. Mary's Medical Center - Management and Operation of the SFO Medical Clinic - Not to Exceed \$12,700,000 .....	30
9	23-0965 Lease Modification - United States Government - Offices Occupied by the U.S. Drug Enforcement Administration - Annual Rent \$620,611.20 .....	35

<p><b>Item 8</b> <b>File 23-0908</b></p>	<p><b>Department:</b> Airport (AIR)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve Modification No. 4 to the Airport’s agreement with Dignity Health (dba St. Mary’s Medical Center) to increase the contract spending authority by \$1,700,000, from \$11,000,000 to \$12,700,000. There is no change to the five-year contract term, from July 1, 2019 through June 30, 2024.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The San Francisco International Airport Medical Clinic opened in the 1970’s, offering travel medicine, urgent care, emergency medicine, immigration physicals and occupational health services to Airport tenant employees, contractors, and the traveling public. The Clinic has been operated since 2001 by Dignity Health dba St. Mary’s Medical Center.</li> <li>• When the prior operating agreement with Dignity Health expired in 2018, the Airport issued a Request for Proposals (RFP). On February 19, 2019, the Airport Commission awarded a new Professional Services Contract to Dignity Health to operate the Airport Clinic for a not to exceed amount of \$5,900,000, for a term of three years, ending on June 30, 2022, with one two-year extension option. The agreement has been amended since that time, most recently in May 2022, when the Board of Supervisors approved Modification No. 3 to the Contract, to exercise the option to extend the term of the agreement by two years, through June 30, 2024, and to increase the contract amount by \$1,600,000 for a new contract amount not to exceed \$11,000,000.</li> <li>• The Airport reimburses Dignity Health for all operating costs in net of patient revenue plus a \$355,000 annual management fee.</li> <li>• According to the Airport, the increase in contract spending per the proposed Modification No. 4 is required to address lower than projected patient volumes.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The projected five-year Airport payment to Dignity Health is \$11,700,000. Modification No. 4 would add an additional \$1,000,000 to this figure as a financial contingency, totaling \$12,700,000, to account for future decreases in patient volumes. Costs are funded by Airport operating revenues.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</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 San Francisco International Airport Medical Clinic opened in the 1970's, offering travel medicine, urgent care, emergency medicine, immigration physicals and occupational health services to Airport tenant employees, contractors, and the traveling public. The Clinic has been operated since 2001 by Dignity Health dba St. Mary's Medical Center.

When the prior operating agreement with Dignity Health expired in 2018, the Airport issued a Request for Proposals (RFP) to gather proposals from qualified providers to assume operation of the Clinic. The Airport received only one response to the RFP, from Dignity Health. The Airport determined that Dignity Health met the minimum qualifications and entered into contract negotiations.

On February 19, 2019, the Airport Commission awarded a Professional Services Contract (No. 50118.02) to Dignity Health to operate the Airport Clinic for a not to exceed amount of \$5,900,000, for a term of three years, ending on June 30, 2022, with one two-year extension option. The contract did not require Board of Supervisors approval because it was less than \$10 million.

**Prior Modifications**

In May 2020, the Airport Commission approved Modification No. 1 to the Contract to amend the scope of services to include onsite COVID-19 testing for Airport staff. In May 2021, the Airport Commission approved Modification No. 2 which increased the not to exceed amount by \$3,500,000, from \$5,900,000 to \$9,400,000, to provide additional revenue to cover operating revenue losses due to reduced airflight traffic volumes caused by the pandemic, and to reduce the management fee by 50 percent, from \$355,000 to \$177,500. In May 2022, the Board of Supervisors approved Modification No. 3 to the Contract, to exercise the option to extend the term of the agreement by two years, through June 30, 2024, and to increase the contract amount by \$1,600,000 for a new contract amount not to exceed \$11,000,000.

On August 15, 2023, the Airport Commission approved Modification No. 4 to the agreement (Airport Resolution No. 23-0201) to increase the not-to-exceed amount to \$12,700,000.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve Modification No. 4 to the Airport's agreement with Dignity Health (dba St. Mary's Medical Center) to increase the contract spending authority by \$1,700,000, from \$11,000,000 to a new not to exceed amount of \$12,700,000. There is no change to the term of the contract which totals five years, from July 1, 2019 through June 30, 2024. There

is no extension term provided. According to the Airport, the increase in contract amount is required to address a shortfall in patient volume, as discussed below.

### **Services Provided**

Under the proposed Modification No. 4, there is no change to the services provided by Dignity Health at the San Francisco International Airport Medical Clinic. Dignity Health will continue providing urgent care, emergency medicine, occupational health services, travel diagnostic services and screen evaluations, and clinical care for City and Airport tenant employees, contractors, and airline travelers.

According to the monthly Clinic utilization report provided by the Airport, in June 2023, Airport tenant employees accounted for a majority (47 percent) of Clinic visits. The most common visit type is drug screening, followed by physical therapy and workers' compensation appointments.

### **Contract Structure**

According to the contract, Dignity Health is reimbursed for all operating costs net of patient revenue plus a \$355,000 annual management fee. The contract requires that the Airport make monthly payments of \$150,000 to Dignity Health. If operating costs exceed patient revenues (insurance reimbursements and applicable out of pocket expenses) plus the base fixed \$150,000 payment in any given month, this amount is reimbursed by Airport through a "true up", with settlement taking place at the end of the fiscal year.

## **FISCAL IMPACT**

Proposed and actual Contract expenditures are shown in Exhibit 1 below. The updated five-year projected Airport payment to Dignity Health is \$11,700,000 (rounded up from \$11,686,621). The proposed Modification No. 4 would add an additional \$1,000,000 to this figure as a financial contingency, totaling \$12,700,000, to account for future decreases in patient volumes. Costs are funded by Airport operating revenues.

**Exhibit 1: Actual and Proposed Budget for Airport Clinic**

	Actual	Actual	Actual	Actual*	Proposed	
	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
Visit Volume	\$13,375	\$10,449	\$16,113	\$10,319	\$10,319	\$60,575
Revenue per Visit	\$97	\$113	\$91	\$88	\$88	
Net Patient Revenue	\$1,302,015	\$1,176,802	\$1,465,605	\$910,003	\$910,003	\$5,764,428
Labor Costs	\$3,204,511	\$3,023,821	\$3,123,681	\$2,537,592	\$2,740,599	\$14,630,204
Non-Labor Expenses	\$313,937	\$263,547	\$263,230	\$266,729	\$293,402	\$1,400,845
Total Operating Expenses	\$3,518,448	\$3,287,368	\$3,386,911	\$2,804,321	\$3,034,001	\$16,031,049
Operating Shortfall	\$2,216,433	\$2,110,566	\$1,921,306	\$1,894,318	\$2,123,998	\$10,266,621
Management Fee	\$355,000	\$177,500	\$177,500	\$355,000	\$355,000	\$1,420,000
<b>Airport Payments</b>	<b>\$2,571,433</b>	<b>\$2,288,066</b>	<b>\$2,098,806</b>	<b>\$2,249,318</b>	<b>\$2,478,998</b>	<b>\$11,686,621</b>

Source: Appendix C-1 of proposed agreement

Note: \*Unaudited, audit to be completed by the end of October 2023.

**Shortfall in Patient Volume**

According to the Airport, in FY 2022-23, the number of patient visits was budgeted at 14,420, while the actual number was 10,319 patients (28 percent less). The projected Airport payments in FY 2022-23 were \$1,901,199, while the actual payments were 18 percent higher, at \$2,249,318. The Airport reported the following contributing factors to the higher-than-expected Airport payment in FY 2022-23:

- To save costs, United Airlines stopped using the Medical Clinic to conduct mandatory drug and alcohol screening for flight and cabin crew. Instead, United Airlines insourced this testing work, which had previously accounted for about 3,600 visits per year to the Clinic.
- Clinic utilization for employer services—which includes physical exams, immunizations, hearing tests and other medical surveillance—temporarily surged during the pandemic, when employees’ traditional provider was unable to serve them due to COVID volumes.
- Reduced employment levels at the Airport, coupled with an increase in work-from-home options, resulted in reduced on-the-job injuries. New injury appointments and workers’ compensation appointments declined since before the pandemic.
- Demand for vaccines has declined, and funding from the federal Health Resources and Services Administration (HRSA) has ended. During the pandemic, the Clinic was reimbursed by HRSA for COVID-19 vaccine disbursement.
- Airport passenger volumes, i.e., potential Clinic patients, remain below pre-pandemic levels.

**RECOMMENDATION**

Approve the proposed resolution.