

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 21-116

APPROVAL OF MODIFICATION NO. 2 TO CONTRACT NO. 50118.02 WITH DIGNITY HEALTH DBA ST. MARY'S MEDICAL CENTER TO INCREASE THE CONTRACT AMOUNT BY \$3,500,000 FOR A NEW TOTAL NOT-TO-EXCEED CONTRACT AMOUNT OF \$9,400,000 AND REDUCE THE MANAGEMENT FEE BY 50% FOR FISCAL YEARS 2020/21 AND 2021/22

WHEREAS, the Airport Commission requires a medical clinic provider to manage and operate the San Francisco International Airport Medical Clinic (SFO Medical Clinic); and

WHEREAS, the SFO Medical Clinic provides urgent care, emergency medicine, occupational medicine, travel medicine, pre-placement examinations, and clinical care for City and tenant employees, contractors, and the traveling public; and

WHEREAS, since 2001, the SFO Medical Clinic has been operated by Dignity Health dba St. Mary's Medical Center (Dignity Health), formerly Catholic Healthcare West; and

WHEREAS, following a competitive process authorized by the Commission, on February 19, 2019, by Resolution No. 19-0026, the Commission awarded the contract for management and operation of the SFO Medical Clinic (Contract) to Dignity Health with an initial term of three years effective July 1, 2019 and a not-to-exceed amount of \$5,900,000, and one option to extend the term for two years, exercisable at the discretion of the Commission; and

WHEREAS, on May 28, 2020, due to the COVID-19 pandemic, Dignity Health and the Airport entered into Modification No. 1 of the Contract, which provided for Dignity Health, through a subcontractor, to make available onsite testing for diagnosis of COVID-19 for Airport Commission employees, Airport tenants, airlines, and other entities serving the Airport; and

WHEREAS, the operating performance of the SFO Medical Clinic has been severely impacted by the COVID-19 pandemic due to lower visitor volumes, experiencing a 22% decline in visits in Fiscal Year (FY) 2019/20, and anticipated declines in visits of 44% and 32% in FYs 2020/21 and 2021/22, respectively; and

WHEREAS, in order to reduce operating costs, Staff proposes reducing the management fee paid to Dignity Health by 50% for FYs 2020/21 and 2021/22, which would result in at least \$177,500 in annual savings for FYs 2020/21 and 2021/22, respectively; and

WHEREAS, certain invoices from FY 2018/19 were received late in FY 2019/20 and funds from the prior contract for the Clinic were no longer available for these payments; and

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RESOLUTION NO. 21-0116

WHEREAS, due to the SFO Medical Clinic's current and projected decrease in operating performance and the payment of late invoices from FY 2018/19, Staff projects that an additional \$3,500,000 in contract authority is needed to cover the Contract over the initial term; now, therefore, be it

RESOLVED, that the Commission approves Modification No. 2 to Contract No. 50118.02 with Dignity Health dba St. Mary's Medical Center as operator of the SFO Medical Clinic to (i) increase the Contract amount by \$3,500,000 for a new total not-to-exceed amount of \$9,400,000 and (ii) reduce the management fee paid to Dignity Health by 50% for FYs 2020/21 and 2021/22.

Page 2 of 2

I hereby certify that the foregoing resolution was adopted by the Airport Commission

at its meeting of _____

MAY 18 2021



Secretary



MEMORANDUM

May 18, 2021

TO: AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Eleanor Johns, Vice President
Hon. Richard J. Guggenlime
Hon. Everett A. Hewlett, Jr.
Hon. Malcolm Yeung

21-0116

MAY 18 2021

FROM: Airport Director

SUBJECT: Approval of Modification No. 2 to Contract No. 50118.02 with Dignity Health dba St. Mary’s Medical Center to Increase the Contract Amount and Reduce the Management Fee by 50% for Fiscal Years 2020/21 and 2021/22

DIRECTOR’S RECOMMENDATION: APPROVE MODIFICATION NO. 2 TO CONTRACT NO. 50118.02 WITH DIGNITY HEALTH DBA ST MARY’S MEDICAL CENTER TO INCREASE THE CONTRACT AMOUNT BY \$3,500,000 FOR A NEW TOTAL NOT-TO-EXCEED CONTRACT AMOUNT OF \$9,400,000 AND REDUCE THE MANAGEMENT FEE BY 50% FOR FISCAL YEARS 2020/21 AND 2021/22.

Executive Summary

Dignity Health dba St. Mary’s Medical Center (Dignity Health) manages and operates the SFO Medical Clinic (Clinic) under Contract No. 50118.02 (Contract), which has a three-year term that expires on June 30, 2022 and one two-year option to extend at the sole discretion of the Commission. The Clinic provides urgent care, emergency medicine, occupational medicine, travel medicine, pre-placement examinations, and clinical care for City and tenant employees, contractors, and the traveling public.

Prior to the onset of the COVID-19 pandemic, the Clinic’s operating performance was within the Contract’s projected budget. Since March 2020, the Clinic has been operating at a substantial shortfall due to significantly reduced patient visit volumes, so additional Airport funding is required to pay the projected Contract requirements. Additionally, a portion of the current Contract’s authority was used to pay invoices for similar services from Fiscal Year (FY) 2018/19. These invoices from the Clinic’s prior Contract No. 9088 were received late in FY 2019/20. To address the shortfall, Staff recommends modifying the Contract to (i) reduce the management fee paid to Dignity Health by 50% for FY 2020/21 and FY 2021/22 and (ii) increase the current not-to-exceed amount by \$3,500,000 for a new not-to-exceed amount of \$9,400,000, with no other changes to the Contract’s terms.

THIS PRINT COVERS CALENDAR ITEM NO. _____

3

Background

The Clinic has been operated by Dignity Health (formerly Catholic Healthcare West) since 2001.

Following a competitive process authorized by the Commission, on February 19, 2019, by Resolution No. 19-0026, the Commission awarded the Contract for management and operation of the Clinic to Dignity Health with an initial term of three years effective July 1, 2019 and a not-to-exceed amount of \$5,900,000. The Contract allows for one option to extend for two years exercisable at the discretion of the Commission.

On May 28, 2020, due to the COVID-19 pandemic, Dignity Health and the Airport entered into Modification No. 1 of the Contract, which provided for Dignity Health, through a subcontractor, to make available onsite testing for diagnosis of COVID-19 for Airport Commission employees, Airport tenants, airlines, and other entities serving the Airport.

Cost Reduction Measures

The Clinic's operating performance has and will continue to be severely impacted by the COVID-19 pandemic due to lower patient visitor volumes. The Clinic experienced a 22% decline in visits in FY 2019/20, and anticipates declines in visits of 44% and 32% in FYs 2020/21 and 2021/22, respectively. In response, Staff proposed cost reduction measures to the Airport's Expense Control Committee (ECC) to (i) close the Clinic on Saturdays and (ii) reduce the management fee paid to Dignity Health by 50% for FY 2020/21 and FY 2021/22. The proposed measures would result in expected savings of at least \$177,500 annually for FYs 2020/21 and 2021/22. Dignity Health has agreed to these measures.

FY 2018/19 Late Invoices

The Airport is billed quarterly for the monthly retainer (Retainer) of \$150,000 for the first 11 months of each fiscal year that is applied to the Clinic's annual management fee and the year's anticipated operating shortfall. Following the fiscal year-end, the Clinic submits the final invoice based on the actual audited financial results for the fiscal year (True Up), accounting for the remaining amount needed to cover the annual operating shortfall plus any portion of the management fee that was not covered by the Retainer payments.

Retainer invoices for the third and fourth quarters of FY 2018/19 for Contract No. 9088 were received in August 2019, and the True Up invoice was received in July 2020. These invoices totaled \$1,257,182, and funds from Contract No. 9088 were no longer available for these payments. Therefore, the invoices were paid using the current Contract.

Modification to Contract Amount

Due to the Clinic's current and projected operating performance and payments for the prior Contract No. 9088 invoices, there will not be enough Contract authority to fund the expected costs

over the Contract's three-year term. Staff anticipate an additional \$3,500,000 will be needed for the initial term. There will be no change in the Contract's scope of work or three-year term. If recommended, Staff will return to the Commission for approval to exercise the two-year option to extend the Contract.

Recommendation

I recommend the Commission approve Modification No. 2 to Contract No. 50118.02 with Dignity Health dba St. Mary's Medical Center to (i) reduce the management fee by 50% for FY 2020/21 and FY 2021/22 and (ii) increase the contract amount by \$3,500,000 for a new total not-to-exceed amount of \$9,400,000.



Ivar C. Satero
Airport Director

Prepared by: Kevin Kone
Acting Chief Financial Officer

Attachment