


**CITY AND COUNTY OF SAN FRANCISCO**  
**BOARD OF SUPERVISORS**  
**BUDGET AND LEGISLATIVE ANALYST**

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**TO:** Budget and Finance Sub-Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** March 5, 2014 Budget and Finance Sub-Committee Meeting

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<b>Item 1</b> <b>File 13-1240</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 resolution would approve a four-year contract between the Department of Public Health (DPH) and Health Advocates, LLC (Health Advocates) from January 1, 2014 through December 31, 2017 for a not-to-exceed amount of \$6,720,000 to provide uncompensated care reimbursement recovery services.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The DPH uses contractors to supplement the Department’s in-house staff to provide uncompensated care reimbursement recovery services, which include (1) evaluating uninsured patients for Medi-Cal eligibility and assisting patients to complete Medi-Cal applications, (2) representing patients during Medi-Cal appeals, and (3) billing Medi-Cal for services provided by DPH.</li> <li>• Health Advocates previously provided these uncompensated care reimbursement recovery services through December 31, 2013 under a contract approved in 2006 and extended in 2010. DPH selected Health Advocates to provide uncompensated care reimbursement recovery services under the new proposed four-year contract from January 1, 2014 through December 31, 2017 based on a competitive request for proposal (RFP) process.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Under the proposed contract, DPH pays Health Advocates a fixed fee for each patient who is approved for Medi-Cal coverage. DPH estimates that over the four-year term of the contract, Health Advocates will generate \$34,400,000 in Medi-Cal revenues. Estimated net revenues to DPH after payment of fees to Health Advocates are \$28,099,610.</li> <li>• Although the proposed contract is for a not-to-exceed contract amount of \$6,720,000, actual estimated payments by DPH to Health Advocates over the four-year term of the contract are \$5,580,390 with a contingency of \$720,000 for a total of \$6,300,390. Therefore, the proposed resolution should be amended to reduce the not-to-exceed contract amount by \$419,610 from \$6,720,000 to \$6,300,390.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution to reduce the not-to-exceed contract amount by \$419,610 from \$6,720,000 to \$6,300,390.</li> <li>• Approve the resolution as amended.</li> </ul>	

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

City Charter Section 9.118(a) states that contracts entered into by a department, board or commission that will generate revenue in excess of \$1 million or any modification of that contract is subject to Board of Supervisors approval.

**Background**

The Department of Public Health (DPH) uses contractors to supplement the Department's in-house staff to provide uncompensated care reimbursement recovery services, which include (1) evaluating uninsured patients for Medi-Cal eligibility and assisting patients to complete Medi-Cal applications, (2) representing patients during Medi-Cal appeals and (3) billing Medi-Cal for services provided by DPH.<sup>1</sup>

DPH originally contracted with Health Advocates, LLC (Health Advocates), a private company, for uncompensated care reimbursement recovery services in 2001. The Board of Supervisors approved contracts between DPH and Health Advocates, awarded through a competitive Request for Proposals (RFP) process, on November 16, 2001 (File 08-1881) and on May 19, 2006 (File 06-0337).

On February 9, 2010, the DPH introduced a resolution (File 10-0105), amending the 2006 four-year contract to extend the term by four years from the initial termination date of December 31, 2009 to a new termination date of December 31, 2013. The Budget and Legislative Analyst's Office had recommended approving a six-month extension to the contract in order for the DPH to undertake a new competitive RFP process for these services. On March 19, 2010, the Board of Supervisors approved the four-year extension to the existing contract between the DPH and Health Advocates, but specified that the contract as amended in 2010 would not extend beyond December 31, 2013.

The DPH issued a new competitive RFP for uncompensated care reimbursement recovery services in November 2012 and an amended RFP in February 2013. Three firms submitted proposals in March 2013 and a four-member panel reviewed and scored the proposals in April 2013. Health Advocates received the highest score as shown in Table 1 below.

**Table 1: Health Advocates Scored Highest of the Three Bids**

<b>Firm</b>	<b>Score</b>
Health Advocates	103.75
CompSpec	76.75
Firstsource	51.25

<sup>1</sup> Medi-Cal includes two programs: (1) fee-for-service, in which Medi-Cal reimburses DPH based on the level of services provided; and (2) managed care, in which Medi-Cal recipients are enrolled in a managed care program and DPH is paid based on enrollment. Under the proposed contract, Health Advocates bills for the fee-for-service program and DPH bills for the managed care program.

The DPH is now requesting that the Board of Supervisors approve a new four-year contract between the DPH and Health Advocates from January 1, 2014 through December 31, 2017.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve a new contract between the DPH and Health Advocates for a four-year term, from January 1, 2014<sup>2</sup> through December 31, 2017 to provide uncompensated care reimbursement recovery services in the not-to-exceed amount of \$6,720,000.

Under the proposed new contract, Health Advocates will screen DPH patients for Medi-Cal eligibility, assist with the Medi-Cal application, refer denied applications for appeals follow up and bill Medi-Cal for fee-for-service payments. The proposed contract also provides for Health Advocates to (1) screen DPH patients and assist with applications for coverage under the federal Affordable Care Act; and (2) collect fees from third-party payers including insurance companies, workers’ compensation, and managed care organizations with third-party liability.

The stated goals in the contract are to (1) maximize revenues to DPH from all sources covered in the contract; (2) assist DPH in collecting data on patient financial mix and future revenue estimates; and (3) assist DPH staff with training and support. The proposed contract sets performance requirements, annual collection targets, and reporting, accounts reconciliation and audit requirements.

The proposed contract requires (1) a monthly analyses of revenues and referral trends, (2) quarterly review of contract performance and DPH staff productivity, and (3) ongoing review and reporting to DPH on Health Advocates’ performance. The proposed contract does not include penalties for failure to meet revenue targets, but Health Advocates’ compensation is based on a flat fee per patient discharge for which Medi-Cal payments have been approved.<sup>3</sup>

**FISCAL IMPACT**

**New Health Advocates Payment Structure**

Under the previous contract, DPH paid Health Advocates a fee based on a percentage of the total amount of Medi-Cal reimbursements to DPH as detailed in Table 2 below.

**Table 2: The Department of Public Health Paid Health Advocates on a Percentage Basis**

Medi-Cal Reimbursements Collected As a Result of Health Advocates’ Services	Percentage of Collections Payable by the DPH to Health Advocates
\$0 to \$2,000,000 in total collections	16%
\$2,000,001 to \$4,000,000 of total collections	18%
\$4,000,001 or more in total collections	20%

<sup>2</sup> Although the proposed contract was effective January 1, 2014, the DPH has not yet paid the contractor for services performed prior to Board of Supervisors approval of the contract.

<sup>3</sup> According to the proposed contract, the flat fee “rates are based upon Approvals (not Referrals or Payments) and apply to each Discharge.”

However, after the previous contract was amended in 2010, the State revised the Medi-Cal reimbursement structure for uncompensated care. As a result, under the proposed new contract DPH will pay Health Advocates a flat fee-per-patient-discharge, consistent with the State's reimbursement structure. According to Ms. Diana Guevara, DPH Patient Financial Services Director, the contract reimbursement rates shown in Table 3 below were negotiated by DPH and Health Advocates.

**Table 3: Payments to Health Advocates Are On Fee-Per-Patient-Discharge Basis**

Service	CY 2014 Fee	CY 2015 Fee	CY 2016 Fee	CY 2017 Fee	Annual Increase
Acute Screening and Applications Fee	\$1,700	\$1,751	\$1,804	\$1,858	3.0%
Acute Fair Hearing and Appeals Fee	\$2,160	\$2,240	\$2,320	\$2,400	3.5%
Psychological Screening and Applications Fee	\$2,160	\$2,240	\$2,320	\$2,400	3.5%
Psychological Hearing and Appeals Fee	\$2,460	\$2,550	\$2,640	\$2,730	3.5%
Modified Adjusted Gross Income Application Follow-up Fee	\$1,200	\$1,236	\$1,273	\$1,311	3.0%
Hospital Presumptive Eligibility Follow-Up Fee	\$1,500	\$1,545	\$1,591	\$1,639	3.0%

Ms. Guevara reports that the total estimated fee payments to be made by DPH to Health Advocates over the four-year term of the proposed new contract are \$5,580,390, as shown in Table 4 below.<sup>4</sup>

**Table 4: Anticipated Payments to Health Advocates Based on Historical Averages**

Acute Care	CY 2014	CY 2015	CY 2016	CY 2017	Total
Acute Care Screening Rate	\$1,700	\$1,751	\$1,804	\$1,858	
Acute Care Appeal Rate	\$2,160	\$2,240	\$2,320	\$2,400	
Number of Screenings	250	250	250	250	
Number of Appeals	250	250	250	250	
<b>Acute Care Subtotal</b>	<b>\$965,000</b>	<b>\$997,750</b>	<b>\$1,031,000</b>	<b>\$1,064,500</b>	<b>\$4,058,250</b>
<b>Psychiatric Care</b>					
Psychiatric Care Screening Rate	\$2,160	\$2,240	\$2,320	\$2,400	
Psychiatric Care Appeal Rate	\$2,460	\$2,550	\$2,640	\$2,730	
Number of Screenings	143	143	143	143	
Number of Appeals	21	21	21	21	
<b>Psychiatric Care Subtotal</b>	<b>\$360,540</b>	<b>\$373,870</b>	<b>\$387,200</b>	<b>\$400,530</b>	<b>\$1,522,140</b>
<b>Total</b>	<b>\$1,325,540</b>	<b>\$1,371,620</b>	<b>\$1,418,200</b>	<b>\$1,465,030</b>	<b>\$5,580,390</b>

<sup>4</sup> Estimated fee payments to Health Advocates of \$5,580,390 under the proposed new contract are 16.22 percent of estimated revenue collections of \$34,400,000 (see Table 5 below); which are less than the percentage fee payments of 16.75 percent estimated by the Budget and Legislative Analyst (File 10-0105) under the prior contract between the DPH and Health Advocates (fee payments of approximately \$7,985,353 compared to \$47,500,000 in revenue collections). According to Ms. Guevara, DPH estimates lower Medi-Cal revenues under the proposed contract for the four-year period from January 2014 through December 2017 due to changes in the Medi-Cal per-diem reimbursement rate.

In addition to total estimated fee payments of \$5,580,390, Ms. Guevara reports that DPH estimates paying Health Advocates an estimated amount of \$100,000 to \$200,000 annually for patients who are initially screened for Medi-Cal eligibility but whose care will be paid by third-party payers, such as private insurance companies or workers' compensation. Under the proposed contract, Health Advocates would receive a percentage of these third-party reimbursements. The proposed new contract includes a total contingency amount of \$720,000 that is available to provide for third-party payments made by the DPH to Health Advocates. Therefore, the total estimated fee payments to be made by the DPH to Health Advocates are \$6,300,390.

Given that the DPH estimates total fee payments of \$6,300,390 to Health Advocates for uncompensated care reimbursement recovery services, the Budget and Legislative Analyst recommends reducing the contract not-to-exceed amount by \$419,610, from \$6,720,000 to \$6,300,390.

### Medi-Cal Reimbursements

Ms. Guevara estimates that DPH, as a result of the services offered by Health Advocates, will receive net Medi-Cal and other reimbursements of \$28.1 million over the four-year term of the contract, as shown in Table 5 below.

**Table 5: Summary of Payments to Health Advocates and DPH**

	FY 2013-14 (Jan 2014 to Dec 2014)	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18 (Jul 2017 to Dec 2017)	Four Year Total
<b>Medi-Cal Reimbursements</b>						
Acute Care Services	\$3,300,000	\$6,600,000	\$6,600,000	\$6,600,000	\$3,300,000	\$26,400,000
Psychological Care Services	1,000,000	2,000,000	2,000,000	2,000,000	1,000,000	8,000,000
Total Reimbursements	4,300,000	8,600,000	8,600,000	8,600,000	4,300,000	34,400,000
<b>Estimated Payments to Health Advocates</b>	<b>(662,770)</b>	<b>(1,348,580)</b>	<b>(1,394,910)</b>	<b>(1,441,615)</b>	<b>(732,515)</b>	<b>(5,580,390)</b>
Net Revenues Paid to the DPH	3,637,230	7,251,420	7,205,090	7,158,385	3,567,485	28,819,610
Contingency						(720,000)
<b>Total Net Revenues to the DPH</b>						<b>\$28,099,610</b>

## RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not-to-exceed contract amount by \$419,610 from \$6,720,000 to \$6,300,390.
2. Approve the resolution as amended.

<b>Item 2</b> <b>File 14-0089</b>	<b>Department:</b> San Francisco International Airport
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objective</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would authorize a new five-year lease between the San Francisco International Airport (Airport) and Southwest Airlines Company (Southwest) for warehouse, office and ramp space to conduct air cargo operations with a total annual rent payable by Southwest to the Airport of \$262,752.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• Southwest is transitioning from using the same 14,546 square feet of cargo warehouse space and ramp space under an Airport permit (No. 4295) to a five-year lease. The proposed lease provides (a) 9,653 square feet of warehouse space, (b) 2,253 square feet of office space, and (c) 2,640 square feet of exterior ramp space to conduct Southwest’s air cargo operations.</li> </ul> <p style="text-align: center;"><b>Fiscal Impacts</b></p> <ul style="list-style-type: none"> <li>• Under the proposed lease, Southwest will continue to pay the Airport rent of \$262,752 a year, subject to annual adjustments in Airport rates and charges and changes in the annual Consumer Price Index.</li> <li>• Under the proposed lease, Southwest will pay a minimum of \$1,313,761 to the Airport over the five-year term of the lease for 14,546 square feet of cargo warehouse, office and ramp space at the Airport.</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

Section 2A.173 of the City's Administrative Code authorizes the Airport to negotiate and execute leases of Airport land and space in Airport buildings without undergoing a competitive bid process, as long as the original term of the lease does not exceed 50 years.

City Charter Section 9.118 states that leases, which would result in revenues to the City in excess of \$1,000,000, are subject to Board of Supervisors approval.

## BACKGROUND

On June 1, 2007, the Airport entered into a month-to-month permit<sup>1</sup> agreement (No. 3958) with Southwest Airlines Company (Southwest) for 10,080 square feet of cargo warehouse and office space in Cargo Building No. 632 on Plot 9 on Airport property, to handle Southwest's air cargo operations. However, due to the Airport's construction of the West Field Cargo facilities in 2013, which demolished Cargo Building No. 632, the Airport requested Southwest to relocate and to enter into a new permit agreement on April 1, 2013 for 14,546 square feet of cargo warehouse, office and ramp space in Cargo Building No. 606 on Plot 9B. This new month-to-month permit agreement (No. 4295) includes (a) 9,653 square feet of warehouse space, (b) 2,253 square feet of office space, and (c) 2,640 square feet of exterior ramp space. A map is attached to this report showing the location of the West Field Cargo Building construction site and Southwest's new location in Cargo Building No. 606.

Annual rent at the relocated site in Building No. 606 of \$258,360 is currently paid by Southwest to the Airport for the total 11,906 square feet of warehouse and office space based on a rate of \$21.70 per square foot per year, as set forth annually in the Airport's approved rates and charges. In addition, an annual rent of \$4,392 is paid by Southwest to the Airport for 2,640 square feet (approximately 0.06 of an acre) of ramp space on Plot 9B based on the Airport's approved rate of \$72,000 per acre per year for ramp space, subject to annual Consumer Price Index adjustments. Together, the Airport currently receives \$262,752 (\$258,360 + \$4,392) in annual rent from Southwest for these cargo facilities.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize a new five-year lease to replace the existing permit agreement between Southwest and the Airport, commencing April 1, 2014 extending through

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<sup>1</sup> A permit issued between the Airport and an airline allows for use of Airport space for an indefinite term, which can be terminated by either party with a 30 day written notice, which is different from a lease between the Airport and an airline which includes a longer and specific term.



March 31, 2019 for the use of Airport Building No. 606 and adjacent ramp space on Plot 9B for a total of 14,546 square feet of space, including (a) 11,906 square feet of cargo warehouse space, and (b) 2,640 square feet of ramp space. Under the proposed lease, Southwest receives the space “as is” and will pay the cost of utilities. The Airport will provide routine maintenance to the building.

**FISCAL IMPACT**

As summarized in Table 1 below, currently, under the existing permit between the Airport and Southwest, Southwest pays \$258,360 for 11,906 square feet of warehouse and office space based on the Airport’s approved rate of \$21.70 per square foot per year. In addition, as shown in Table 1 below, Southwest currently pays the Airport approximately \$1.65 per square foot or \$4,932 for 2,640 square feet (0.06 of an acre) of ramp space based on the Airport’s approved rate of \$72,000 per acre per year. Ramp space rates are adjusted in an amount equal to the increase in Consumer Price Index, approved annually by the Airport.

**Table 1: Proposed Annual Rent for Airport Cargo Warehouse, Office and Ramp Space**

	Square feet	Airport’s Approved Rates	Total
Cargo Warehouse	11,906	\$21.70 per square foot	\$258,360
Ramp Space	2,640	\$1.65 per square foot	\$4,392
<b>Total</b>	<b>14,546</b>	--	<b>\$262,752</b>

Together, Southwest currently pays the Airport \$262,752 of rent for use of Airport Building No. 606, or \$21,896 per month under the existing month-to-month permit. Under the proposed new five-year lease, Southwest will continue to pay the airport the same annual rent of \$262,752. This rate is subject to the Airport’s adjustments in the cargo, office and ramp space rates, such that these rate adjustments would be paid by Southwest under the proposed lease. As of the writing of this report, the Airport cannot estimate the amount of such adjustments. Therefore, over the total term of five years, Southwest will pay a minimum of \$1,313,761 (\$262,752 x 5) to lease 14,546 square feet of cargo and ramp space from the Airport.

**RECOMMENDATION**

Approve the proposed resolution.

Attachment

