

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: November 3, 2021 Budget and Finance Committee Meeting

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<p>Item 2 File 21-0009</p>	<p>Department: Department of Public Health (DPH)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would retroactively approve the first amendment to the fiscal intermediary check-writing services agreement between the Department of Public Health (DPH) and HealthRIGHT 360 (HR 360), 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. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • DPH’s original \$9,987,371 contract with HR 360 for fiscal intermediary services expired in July 2021. The Department amended the contract to extend the term from August 2021 through June 2023 and increase the not to exceed amount to \$46,766,160 but did not bring the amendment to the Board of Supervisors for approval because it prioritized contracting for pandemic-related contracts. • Under the proposed contract, HR 360 provides check writing fiscal intermediary services for DPH Behavioral Health 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 accounts payable system. 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. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • DPH estimates that HR 360 will write approximately 2,300 checks per year, with the annual amounts between \$17.4 million - \$18 million per fiscal year. The rate at which DPH will reimburse HR 360 (acting as fiscal agent) is \$22 per check. Given that DPH estimates that HR 360 would execute approximately 2,300 annual payments, the added cost to the City for fiscal intermediary services would be approximately \$50,600 per year. • DPH estimates that 90.3% of the total spending for services paid through the HR 360 fiscal intermediary services contract will be funded by the General Fund, 9.4% will be funded by State revenues, and the remaining 0.3% will be funded by work orders and State grants. <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 proposer that responded to the RFP. A four-member panel reviewed HR 360's proposal and scored it 78.67 out of 100 possible points and determined that HR 360 met the minimum qualifications for the RFP.¹

In 2020, DPH awarded a contract to HR 360 for a term of five years, from January 2021 through December 2025, and an amount not to exceed \$93,056,085. However, DPH subsequently requested to delay seeking Board of Supervisors approval, pending additional review by the City Attorney's Office. To ensure the continuation of fiscal intermediary check-writing services, 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. The contract did not require Board of Supervisors approval because it did not exceed 10 years or \$10 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve the first amendment to the fiscal intermediary check-writing services agreement between DPH and HR 360, 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.

The current contract term ended on July 31, 2021, and the proposed first amendment extended the contract term from August 1, 2021 through June 30, 2023. According to Michelle Ruggels, DPH Business Office Director, the proposed resolution is retroactive because of the prioritization of attending to contracts to address the City's pandemic response.

Services Provided

HR 360 will provide check-writing services primarily for the Behavioral Health Services Division of DPH as well as certain emergency housing providers for the Department of Homelessness &

¹ The evaluation panel included a Community Development Specialist from the Mayor's Office of Housing and Community Development, the Contracts Manager from the Department of Homelessness & Supportive Housing, a Senior Contract & Compliance Officer from the Department of Children, Youth, and Their Families, and a Financial Analyst from the Controller's Office. According to DPH, the RFP was sent over 100 organizations.

Supportive Housing. 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 Department of Public Health Behavioral Health Services policies and procedures for safety, privacy, and adequacy of service.

Under the proposed contract, HR 360 will serve 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
- Licensed residential care facilities
- 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
- Parent Training Institute support services through sessions held at Family Resource Centers.
- Workforce development and training
- Other mental health and substance use disorder consultations, and hospital payments for psychiatric emergency and eating disorder.

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 accounts payable 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.

Payment Verification

The proposed 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 IMPACT

The proposed resolution would increase the not-to-exceed amount of the HR 360 contract by \$36,778,789, for a total not to exceed \$46,766,160. Actual and projected expenditure are shown in Exhibit 1 below.

Exhibit 1: Actual and Projected Contract Expenditures

Time Period	Amount
1/1/21 – 6/30/21 (Actual)	\$7,163,815
7/1/21 – 6/30/22 (Projected)	17,445,967
7/1/22 – 6/30/23 (Projected)	17,969,346
Contingency (12%)*	4,187,032
Total Not-to-Exceed Amount	\$46,766,160

Source: Department of Public Health

Note: The contingency amount is calculated on projected expenditures of \$17.4 million for both FY 2021-22 and FY 2022-23. Projected spending in FY 2022-23 is based on the prior year amount plus a 3% cost of doing business increase for service providers.

DPH estimates, on the basis of past contracts, that HR 360 will write approximately 2,300 checks per year, with the annual payment amounts totaling \$17.4 million to \$18 million per fiscal year. The rate at which DPH will reimburse HR 360 (acting as fiscal agent) is \$22 per check. Given that DPH estimates that HR 360 would execute approximately 2,300 annual payments, the added cost to the City for fiscal intermediary services would be approximately \$50,600 per year.

DPH estimates that 90.3% of the spending will be funded by the General Fund, 9.4% will be funded by State revenues, and the remaining 0.3% will be funded by work orders and State grants.

RECOMMENDATION

Approve the proposed resolution.

Item 4 File 21-1003	Departments: Office of Contract Administration (OCA)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution authorizes the Office of Contract Administration (OCA) to enter into a sixth contract modification with MSC Industrial Supply Company Inc. for the purchase of industrial supplies for City departments. The proposed modification increases the contract amount by \$5.8 million for a total not to exceed amount of \$15.7 million and extends the contract term from April 30, 2022 through June 30, 2023. <p>Key Points</p> <ul style="list-style-type: none"> • OCA determined that MSC Industrial Supply Company Inc. provided the lowest cost bid to a competitive solicitation and was initially awarded a \$4 million contract with a three-year term from May 1, 2017 to April 30, 2020. The current contract has been modified five times to extend the term and increase the not to exceed amount so that the current contract now ends on April 5, 2022 and has a not to exceed amount of \$9.9 million. • The contract provides discounts that range from 5 percent to 45 percent from catalogue prices for industrial supplies, depending on the product. OCA reports being in regular communication with ordering departments to monitor any performance gaps and reports that there have been no major performance problems with this Contractor. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed sixth amendment increases the not to exceed amount of the contract with MSC Industrial Supply Company Inc. by \$5.8 million to a total of \$15.7 million. Although the current contract term is through April 2022, OCA projects that the \$9.9 million contract amount will be fully spent by November 15, 2021. The requested \$5.8 million increase is therefore intended to provide contract spending authority from November 15, 2021 to June 30, 2023 or approximately 20 months at \$290,000 in spending per month. • Actual average monthly spending in FY 2019-20 and FY 2020-21 was \$190,331. Using this figure, we project that actual spending on this contract between November 15, 2021 and the proposed end date of June 30, 2023 will be \$3.8 million. Including a 15 percent contingency, we estimate total additional spending will be \$4.4 million rather than \$5.8 million. We therefore recommend the total not to exceed amount be reduced from \$15.7 million to \$14.3 million. <p>Recommendations</p> <ul style="list-style-type: none"> • Amend the resolution to reduce the not to exceed amount from \$15,700,000 to \$14,277,623. • Approve the proposed resolution, as amended. 	

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

A request for proposals (RFP) was issued by the Office of Contract Administration (OCA) in March 2017 for industrial supplies for a contract period of three years, with the possibility of extension for up to four years. The RFP requested bids for 19 industrial supplies, such as heating, ventilation and air conditioning (HVAC) equipment and supplies, specialized industrial cleaning equipment and supplies, and personal protective equipment, among other industrial supplies.

Current Contract

OCA determined that MSC Industrial Supply Company Inc. provided the lowest cost bid and was awarded a \$4 million contract with a three-year term from May 1, 2017 to April 30, 2020. The contract allows for all City departments to purchase industrial supplies. The contract provides discounts that range from five percent to 45 percent from catalogue prices, depending on the product. The current contract has been modified five times to extend the term and increase the not to exceed amount so that the current contract ends on April 5, 2022 and has a not to exceed amount of \$9.9 million. The original contract and subsequent amendments did not require Board of Supervisors approval because the term did not exceed ten years and the total not to exceed amount was less than \$10 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the Office of Contract Administration (OCA) to enter into a sixth contract modification with MSC Industrial Supply Company Inc. for the purchase of industrial supplies for City departments.

The proposed modification increases the contract amount by \$5.8 million for a total not to exceed amount of \$15.7 million and extends the contract term from April 30, 2022 through June 30, 2023.

Performance Monitoring

- The contract includes several key provisions to hold the Contractor accountable for specified delivery times, product availability, price, and environmental sustainability, as listed below. **Failure to Deliver.** If the Contractor is unable to deliver products within the timeframe agreed under the contract, the ordering department may source from another vendor. In this case, the City has a right to receive the difference if the new purchase price is higher than the contract price.
- **Delivery Timeframe.** The Contractor must deliver stocked products within five days after the purchase order is received; and in some cases, the ordering department may request delivery within 24-hours once the purchase order is received. If the Contractor is unable to

meet the 24-hour delivery timeframe, the Contractor is required to inform the ordering department when the ordered product(s) will be available for delivery.

- **Substitute Items.** If a contracted item is unavailable or discontinued, it is the Contractor's responsibility to find an equal substitute in time for the required delivery and at the contracted price.
- **Environmental Specifications.** Goods must meet environmental specifications per Chapter 2 and Chapter 5 of the City's Environment Code, such as maximizing purchasing of recycled products and products composed without polyvinyl chloride (PVC).

OCA reports being in regular communication with ordering departments to monitor any Contractor performance gaps, such as persistent delivery delays, inability to meet delivery timeframes, or lack of responsiveness when an order is unable to be fulfilled. OCA further reports that there have been no major performance problems with this Contractor.

Actual Spending

The Office of Contract Administration reports spending \$9.6 million of the total current contract amount of \$9.9 million, as displayed in Exhibit 1 below.

Exhibit 1: Expenditures to Date for Industrial Supplies Contract

Department	FY 2016-17*	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22*	Total
PUC		928,716	740,403	1,092,984	836,311	433,003	4,031,417
AIR		284,208	671,429	1,115,946	661,091	559,000	3,291,674
MTA	57,391	494,869	438,085	314,016	154,222	133,620	1,592,203
PRT	58,016	6,347	50,493	167,485	76,161	4,769	363,271
ADM	3,135	10,000		36,779	35,000	46,572	131,486
FIR		48,316		25,500	12,500	7,500	93,816
LIB		16,363	20,189	6,224	4,462	9,206	56,444
DPW		16,750	18,000	14,933	808	5,000	55,491
DPH			19,770	1,104	2,748		23,621
DAT					7,000		7,000
JUV				1,641	1,042		2,682
Total Amount	118,542	1,805,570	1,958,368	2,776,610	1,791,345	1,198,670	9,649,105

Source: OCA

Notes: FY 2016-17 spending includes less than two months of spending. FY 2021-22 shows spending and purchase orders open as of October 19, 2021.

The majority of total contract spending to date—92 percent, or \$8.9 million—has been made by three departments, San Francisco Airport, Municipal Transportation Agency, and the Public Utilities Commission, as shown above. According to OCA, items purchased under this contract mostly include:

- **Safety Products**, including respirators, masks, safety glasses, batteries, gloves, ear muffs, sanitizers, and first-aid kits.

- **Material Handling Supplies**, including storage systems, shelving kits, ladders, casters, slings, pallet jacks, floor jacks, hand trucks, and lockers.
- **Power Tools**, including impact wrenches, rotary hammers, grinders, saw blades, power drills, batteries, driver sets, and power tool kits.
- **Janitorial Supplies**, including carts, mops, pails, towels, and wipes.
- **Plumbing Materials**, including pipes, fittings, couplers, brushes, sealing tapes, and clamps.

FISCAL IMPACT

The proposed sixth amendment increases the not to exceed amount of the contract with MSC Industrial Supply Company Inc. by \$5.8 million to a total of \$15.7 million. Although the current contract term is through April 2022, OCA projects that the \$9.9 million contract amount will be fully spent by November 15, 2021. The requested \$5.8 million increase is therefore intended to provide contract spending authority from November 15, 2021 to June 30, 2023 or approximately 20 months at \$290,000 in spending per month.

However, actual average monthly spending in FY 2019-20 and FY 2020-21 was \$190,331. Using this figure, we project that actual spending on this contract between November 15, 2021 and the proposed end date of June 30, 2023 will be \$3.8 million. Including a 15 percent contingency, project total new spending will be \$4.4 million rather than \$5.8 million. We therefore recommend the total not to exceed amount should be reduced from \$15.7 million to \$14.3 million, as shown below in Exhibit 2.

Exhibit 2: Projected Spending

Run out of money	11/15/21
New end of contract	6/30/23
Months of spending	20
Average monthly spending FY 20 & FY 21	190,331
Projected Spending	3,806,629
Contingency (15%)	570,994
Total Projected Spending	4,377,623
BLA Not To Exceed	14,277,623
Requested Not To Exceed	15,700,000
Difference	(1,422,377)

Source: BLA Analysis

RECOMMENDATIONS

1. Amend the resolution to reduce the not to exceed amount from \$15,700,000 to \$14,277,623.
2. Approve the proposed resolution, as amended.

Item 5 File 21-1004	Departments: Office of Contract Administration (OCA)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution authorizes the Office of Contract Administration to enter into a fifth contract modification with Buckles-Smith Electric Co. for the purchase of electrical supplies and fixtures for City departments. The proposed modification increases the contract amount by \$5.4 million for a total not to exceed amount of \$15.3 million and extends the contract term by one year for a total contract duration of six years from July 5, 2017 through June 30, 2023. <p>Key Points</p> <ul style="list-style-type: none"> • OCA determined that Buckles-Smith Electric Co. provided the lowest cost bid in response to a competitive solicitation and was awarded a \$5 million contract with a three-year term from July 5, 2017 through June 30, 2020. The current contract has been modified four times to extend the term and increase the not to exceed amount so that the current contract now ends on June 30, 2022 and has a not to exceed amount of \$9.9 million. • The contract provides discounts that range from 15 percent to more than 90 percent from catalogue prices for electrical supplies and fixtures, depending on the product. OCA reports being in regular communication with ordering departments to monitor any Contractor performance gaps and reports that there have been no major performance problems with this Contractor. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed fifth amendment increases the not to exceed amount of the contract with Buckles-Smith Electric Co. by \$5.4 million to a total of \$15.3 million. Although the current contract term ends in June 2022, OCA projects that the current \$9.9 million contract amount will be fully spent by November 15, 2021. The requested \$5.4 million increase is therefore intended to provide contract spending authority from November 15, 2021 to June 30, 2023 or approximately 20 months at \$270,000 in spending per month. • Actual average monthly spending in FY 2019-20 and FY 2020-21 was \$175,951. Using this figure, we project that actual spending on this contract between November 15, 2021 and the proposed end date of June 30, 2023 will be \$3.5 million. Including a 15 percent contingency, we project total additional spending will be \$4 million rather than \$5.4 million. We recommend the total not to exceed amount should be reduced from \$15.3 million to \$13.9 million <p>Recommendations</p> <ul style="list-style-type: none"> • Amend the resolution to reduce the not to exceed amount from \$15,300,000 to \$13,946,868. • Approve the proposed resolution, as amended. 	

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

A request for proposal (RFP) was issued by the Office of Contract Administration in May 2017 for electrical supplies and fixtures for City departments for a contract period of three years, with the possibility of extension for a period or periods of one-year up to a maximum contract duration of six years.

Current Contract

OCA determined that Buckles-Smith Electric Co. provided the lowest cost bid and was awarded a \$5 million contract with a three-year term from July 5, 2017 through June 30, 2020. The contract allows for all City departments to purchase electrical supplies and fixtures. The contract provides discounts that range from 15 percent to more than 90 percent from catalogue prices, depending on the product. The current contract has been modified four times to extend the term and increase the not to exceed amount so that the current contract now ends on June 30, 2022 and has a not to exceed amount of \$9.9 million. The original contract and subsequent modifications did not require Board of Supervisors approval because the term did not exceed ten years and the total not to exceed amount was less than \$10 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the Office of Contract Administration to enter into a fifth contract modification with Buckles-Smith Electric Co. for the purchase of electrical supplies and fixtures for City departments.

The resolution increases the contract amount by \$5.4 million for a total not to exceed amount of \$15.3 million and extends the contract term by one year for a total contract duration of six years from July 5, 2017 through June 30, 2023.

Performance Monitoring

The contract includes several key provisions to hold the Contractor accountable for specified delivery times, product availability, price, and environmental sustainability, as listed below.

- **Failure to Deliver.** If the Contractor is unable to deliver products within the timeframe agreed under the contract, the ordering department may source from another vendor. In this case, the City has a right to receive the difference if the new purchase price is higher than the contract price.
- **Delivery Timeframe.** The Contractor must deliver stocked products within five days after the purchase order is received; and in some cases, the ordering department may request delivery within 24-hours once the purchase order is received. If the Contractor is unable to

meet the 24-hour delivery timeframe, the Contractor is required to inform the ordering department when the ordered product(s) will be available for delivery.

- **Substitute Items.** If a contracted item is unavailable or discontinued, it is the Contractor's responsibility to find an equal substitute in time for the required delivery and at the contracted price.
- **Environmental Specifications.** Goods must meet environmental specifications per Chapter 2 and Chapter 5 of the City's Environment Code, such as maximizing purchasing of recycled products and products composed without polyvinyl chloride (PVC).

OCA reports being in regular communication with ordering departments to monitor any Contractor performance gaps, such as persistent delivery delays, inability to meet delivery timeframes, or lack of responsiveness when an order is unable to be fulfilled. OCA further reports that there have been no major performance problems with this Contractor.

Actual Spending

The Office of Contract Administration reports spending \$9.7 million of the total current contract amount of \$9.9 million, as displayed in Exhibit 1 below.

Exhibit 1: Expenditures to Date for Electrical Supplies and Fixtures Contract

Department	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22*	Total
PUC	1,061,613	1,262,157	1,137,557	1,694,357	901,081	6,056,765
AIR	84,109	211,588	263,695	189,937	170,192	919,521
DPW	220,592	284,386	139,243	129,271	19,699	793,191
MTA	34,437	201,900	121,761	68,329	103,354	529,783
TIS		95,517	69,017	82,193	67,034	313,761
LIB	65,146	105,690	47,927	29,569	23,572	271,903
ENV	270,600					270,600
REC	38,677	86,132	7,045	54,695	13,205	199,755
DPH	36,162	28,409	42,650	35,000	18,000	160,221
PRT		34,359	69,297	7,152	617	111,425
ADM	33,579	28,218	25,211	8,458		95,467
JUV				452	1,350	1,802
Total Amount	1,844,916	2,338,355	1,923,403	2,299,415	1,318,104	9,724,193

Source: OCA

*FY 2021-22 shows spending and purchase orders open as of October 19, 2021.

The majority of total contract spending to date—62 percent, or \$6.1 million—has been made by the Public Utilities Commission, as shown above. According to OCA, items mostly purchased under this contract include electrical wires and cables, conduits, lamps and fixtures, and electrical controls.

FISCAL IMPACT

The proposed fifth amendment increases the not to exceed amount of the contract with Buckles-Smith Electric Co. by \$5.4 million to a total of \$15.3 million. Although the current contract term ends in June 2022, OCA projects that the \$9.9 million contract amount will be fully spent by November 15, 2021. The requested \$5.4 million increase is therefore intended to provide contract spending authority from November 15, 2021 to June 30, 2023 or approximately 20 months at \$270,000 in spending per month.

However, actual average monthly spending in FY 2019-20 and FY 2020-21 was \$175,951. Using this figure, we project that actual spending on this contract between November 15, 2021 and the proposed end date of June 30, 2023 will be \$3.5 million. Including a 15 percent contingency, we project total additional spending will be \$4 million rather than \$5.4 million. We therefore recommend the total not to exceed amount should be reduced from \$15.3 million to \$13.9 million, as shown below in Exhibit 2.

Exhibit 2: Projected Spending

Run out of money	11/15/21
New end of contract	6/30/23
Months of spending	20
Average monthly spending FY 20 & FY 21	175,951
Projected Spending	3,519,020
Contingency (15%)	527,853
Total Projected Spending	4,046,868
BLA Not To Exceed	13,946,868
Requested Not To Exceed	15,300,000
Difference	(1,353,132)

Source: BLA Analysis

RECOMMENDATIONS

1. Amend the resolution to reduce the not to exceed amount from \$15,300,000 to \$13,946,868.
2. Approve the proposed resolution, as amended.