



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: TBD

Proposed Transition to Alliance Model for EMS Delivery

OVERVIEW

On July 31, 2023, the City Council will be asked to approve the Second Amendment to the City's Emergency Ambulance Transportation Services contract (Contract) with Falck Mobile Health (Falck). This Second Amendment will transition the City to an "Alliance Model" for EMS delivery which consists of the City purchasing ambulance unit hours to staff the EMS system. Under the Second Amendment, Falck will be required to provide a daily average of 780 advanced life support (ALS) and 120 essential life support (BLS) unit hours which are compensated by the City at hourly rates.

Other related actions include approval of a contract with American Medical Response Ambulance Transport Services (AMR) to provide a daily average of 72 ALS unit hours; approval of a contract with Wittman Enterprises LLC to provide EMS billing and collections services; and approval of Ambulance Transport Patient Fee increases.

As the proposed Alliance Model brings with it added financial responsibility, this report evaluates revenue and expenditure projections for the EMS system under the Alliance Model and discusses potential risks to the City, as well as other key considerations for the City Council.

BACKGROUND

Since the time Falck began providing EMS services in the City on November 27, 2021, the Fire-Rescue Department has regularly provided updates to the Public Safety Committee concerning Falck's contract compliance. During these updates, the Fire-Rescue Department consistently reported that Falck was unable to meet the requirements of the Contract, including ALS staffing/unit hours and response times. The Contract requires 900 ALS unit hours +/- 4% for

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seasonality each day, with an additional 108 hours in BLS coverage. Falck was only able to reach the required 900 ALS hours three times in the first full year of the contract and provided the total number of required hours (1,008 hours) 52 times (BLS hours in excess of 200 per day). With low unit hours available in the system, response times have also been an issue, with multiple months dipping below the mandated 90% response time requirements.

To ensure continued public safety and to meet the number of unit hours necessary for the City, the Fire-Rescue Department is proposing to change the City’s EMS system from the current “private-for-profit” based emergency transportation model to a subcontracting based “public-private partnership” known as the “Alliance” model. Under the current model, Falck is the “provider of record” and is responsible for managing how the system is designed and operated. Further, Falck bills for services and generates profits assuming collected revenues exceed their expenditures. By contrast, the Alliance model will designate the City as the provider of record, and give the Fire-Rescue Department full control and management of the ambulance system. The Alliance Model also provides additional revenue that is only available to public providers, as will be discussed later in this report.

City Council’s approval of the proposed Second Amendment to the City’s current Contract with Falck and other related actions will allow the Fire-Rescue Department to fully implement the Alliance Model. The First Amendment, approved by the City Council in May 2023, allowed Falck to subcontract out ambulance services to meet performance standards and waived penalty fees for non-compliance of performance metrics. This was intended to be an interim solution to increase ALS unit hours above the current number of ALS unit hours Falck had been providing prior to the First Amendment (on average 796 ALS unit hours daily). According to the Department, ALS unit hours in June 2023 averaged 927 hours per day, which includes 48 hours per day provided by Falck’s subcontractor AMR.

POLICY DISCUSSION

Public Provider Ground Emergency Transportation Inter-Governmental Transfer Program

The Public Provider Ground Emergency Transportation Inter-Governmental Transfer (PP-GEMT IGT) Program, established in accordance with AB 1705 and recently implemented in January 2023 by the Department of Health Care Services (DHCS), provides eligible public providers of ground emergency medical transports with supplemental reimbursement through add-on payments. Under the PP-GEMT IGT Program, ambulance bills for patients enrolled in Medi-Cal are paid a base rate of \$118.20, plus the new add-on amount of \$946.92, for a total reimbursement of \$1,065.12. These figures are summarized in Table 1 on the following page.

Funding for the new PP-GEMT IGT Program’s add-on payments is made from Federal Centers for Medicare and Medicaid Services (CMS) funds matched with local funds. The State of California will not allow State general funds to be used, so the program requires public ambulance providers to voluntarily provide the State with the matching amount needed, approximately \$110 million annually, through an Inter-Governmental Transfer (IGT). DHCS then uses the non-federal funds to draw down the available matching federal funds and uses the combined amount to pay

the add-on amount per transport. The City’s proportional amount of the non-federal share is assumed to be \$365 per Medi-Cal transport.

Table 1: Medi-Cal Reimbursement per Transport under the PP-GEMT IGT Program

Base Rate	PP-GEMT IGT Add-on	Total Medi-Cal Reimbursement	City's Assumed Non-Federal Share Payment	Net-Reimbursement
\$ 118.20	\$ 946.92	\$ 1,065.12	\$ (365.00)	\$ 700.12

Revenue and Expenditure Estimates

The Fire-Rescue Department engaged AP Triton Consulting, LLC to prepare revenue and expenditure estimates for the first three years of the City’s EMS System under the Alliance Model, including the increased Medi-Cal reimbursements and costs associated with the PP-GEMT IGT Program.

AP Triton’s estimates for Year 1, which assumes the entirety of FY 2024 (July 2023 – June 2024), are summarized in Table 2 below.

Table 2: AP Triton Revenue and Expenditure Estimate - Year 1 (July 2023 - June 2024)

ESTIMATED REVENUE					
Payer	% of Transports	Total Transports	Rate	Assumed Recovery %	Reimbursement Revenue
Medi-Cal	36.2%	39,820	\$ 1,065	100%	\$42,413,078
Medicare	40.3%	44,330	\$ 648	86%	\$24,696,243
Commercial Insurance	16.6%	18,260	\$ 3,061	80%	\$44,717,133
Private Pay	6.3%	6,930	\$ 3,061	5%	\$1,060,685
Contractual	0.6%	660	\$ 600	100%	\$396,000
Total	100.0%	110,000			\$113,283,140
ESTIMATED EXPENDITURES					
Item	Assumptions				Estimated Costs
PP-GEMT IGT Owed	\$365 per Medi-Cal transport				\$14,534,300
Billing Contractor	3.25% of total collections/revenue				\$3,681,702
New Dispatch Personnel	Addition of 12.00 Fire Dispatcher 2s				\$1,239,609
Current EMS Division Operating Expenses	FY 2024 EMS Fund Operating Expenditures (less Transfers out to General Fund)				\$8,626,142
Falck Unit Hour Costs	792 ALS Hours/day (780 hrs. per day + 360 cushion per month)				\$63,019,440
	132 BLS Hours/day (120 hrs. per day + 360 cushion per month)				\$8,913,300
AMR Unit Hour Costs	72 ALS Hours per day (estimated)				\$5,729,040
Hospital Holdover Costs	12 Unit Hours per day (above the first 100)				\$954,840
Total					\$106,698,373
ESTIMATED SURPLUS					\$6,584,767

Beyond Year 1, AP Triton assumes that the number of total transports will increase by 2,000 per year and patient transport charges will increase by 7%, while Medi-Cal and Medicare reimbursements are held constant. With respect to expenditures, Falck and AMR’s unit hour costs are adjusted in accordance with the Second Amendment, new dispatch personnel costs incorporate

negotiated salary increases, and EMS Division Operating Expenses are assumed to increase by 5%.

Table 3 below summarizes AP Triton’s revenue and expenditure estimates through FY 2026 (Years 1, 2 and 3). Our Office has prorated AP Triton’s Year 1 estimates assuming an implementation/start date of October 1, 2023¹ and included this within Table 3.

Table 3: AP Triton Revenue and Expenditures Estimates through FY 2026

	Year 1 FY 2023	Year 1 Prorated Oct 1 2023 Start	Year 2 FY 2025	Year 3 FY 2026
Estimated Revenue	\$ 113,283,140	\$ 84,962,355	\$ 118,605,546	\$ 124,276,952
Estimated Expenditure	\$ 106,698,373	\$ 80,333,682	\$ 115,619,199	\$ 118,725,397
Estimated Surplus	\$ 6,584,767	\$ 4,628,673	\$ 2,986,347	\$ 5,551,556
Accumulated Fund Balance		\$ 4,628,673	\$ 7,615,020	\$ 13,166,575

Our Office reviewed AP Triton’s projections and underlying assumptions, and found that they generally represent a reasonable and conservative, base case. For example, no increase to Medi-Cal reimbursements under the PP-GEMT IGT program are assumed; these reimbursements could increase by up to 8-9% in Year 2 according to AP Triton, which would increase overall revenues by approximately \$3.4 million. Additionally, there is no “non-transport” revenue assumed. This revenue, which is incurred when patients are not transported to a hospital but are charged for treatment provided on scene, could generate an additional \$500,000. Finally, AP Triton states that they have assumed conservative recovery percentages. If the City were to institute a more proactive collections policy, AP Triton believes that an additional \$8-9 million could be recovered.

Financial Risks

The most significant financial risk to City under the Alliance Model is a circumstance under which EMS transport revenues are unable to cover EMS system costs. Were this to happen, General Fund support could be required to cover any shortfalls, thereby potentially impacting other core City services. As depicted in Table 2, EMS transport revenue is a function of ambulance transport volumes, payer mix, transport charges/reimbursement rates, and recovery percentages. While AP Triton’s assumptions for these variables are reasonable, we note their projections may be sensitive to unforeseen changes.

Loss of PP-GEMT IGT Reimbursements

As discussed earlier in this report, the PP-GEMT IGT Program is anticipated to provide a reimbursement of approximately \$1,065 per Medi-Cal transport. This enhanced reimbursement is funded with federal CMS funds that are matched by *voluntary* contributions from participating public providers of ground emergency medical transport. The DHCS has advised that, “if DHCS determines that the projected amount of voluntary contributions is not sufficient to support implementation of the Program, the Program would not be continued in future rating periods. If

¹ The Second Amendment requires that the City provide Falck a minimum of 45 days written notice before the terms of the Second Agreement will begin. Assuming that the City Council approves the Second Amendment on July 31, 2023, the earliest date that the Alliance Model could be implemented is mid-September 2023.

the Program ends, public GEMT providers would revert to reimbursement under existing programs, including the GEMT Certified Public Expenditure (GEMT CPE) Supplemental Payment Program and the GEMT Quality Assurance Fee (QAF) Program.”² According to the California Fire Chief’s Association, the first CY 2023 PP-GEMT payment due from participating providers on June 15, 2023, was 8.2%, or \$2.8 million underfunded.³ While AP Triton has confirmed that several of the participating providers who had previously chosen not to make their voluntary contributions have since been pressured to submit their payments, an outstanding shortfall still exists. According to AP Triton, the expectation is that, should a shortfall exist in any given year, other participating providers would voluntarily contribute a greater share to make up for the shortfall, rather than risk the PP-GEMT IGT Program’s termination. For this reason, AP Triton has assumed the City’s proportional amount of the non-federal share would be \$365 per Medi-Cal transport, which is approximately \$44, or 14%, higher than the City otherwise would have been responsible for (\$321 per Medi-Cal transport). While this is reasonable considering the significant financial benefit that remains despite the higher payment, the risk of the PP-GEMT IGT Program terminating, particularly in the long-term, will remain. While it may be unlikely, it is possible circumstances could arise during a significant economic downturn where multiple large participating providers choose to forgo making their voluntary contribution rather than facing budget reductions. To illustrate the potential impact associated with the loss of the PP-GEMT IGT Program, our Office estimates that the City could lose more than \$18 million in net revenues annually. It will be necessary to take this risk into consideration when determining appropriate reserve levels for the City’s EMS system, should the City participate in the PP-GEMT IGT Program over the long term.

Reduction in Transports

The number of transports in AP Triton’s estimates for Year 1 (110,000) assumes a nominal increase based on the number of transports that occurred in CY 2022 (108,905). Actual transport volumes could fluctuate up or down which could meaningfully impact AP Triton’s projections. For Year 2 and Year 3, AP Triton assumes that the number of transports will increase by 2,000 each year (112,000 transports in Year 2 and 114,000 transports in Year 3). If, for example, transports were to decrease by 2,000 in Year 2, (rather than increase by 2,000 with all else held constant) the City’s EMS system would experience a net loss of approximately \$1.2 million rather than the \$3.0 million surplus projected by AP Triton. With that said, it should be noted that transport volumes have generally increased over time.

Revenue from “Contractual” Transports

The “payer mix” utilized by AP Triton is based on current payer mix data provided by Falck as of December 2022. Falck’s current payer mix includes a “contractual” payer category which is based on contracts with negotiated rates that Falck has with various clients, which includes hospitals, care facilities, and/or other providers. Should the City transition to the Alliance Model and take over billing and collections, this payer category, which consists of approximately 650 transports, will no longer exist. This may impact AP Triton’s revenue estimates depending on the nature of

² <https://www.dhcs.ca.gov/provgovpart/Documents/PPGEMT-IGT-FAQs-.pdf>

³ <https://www.calchiefs.org/news/644841/>

those contracts and the types of transport they consist of. For example, if the transports are redistributed within another payer category, overall revenue is likely to increase; conversely, if these transports are no longer serviced through the City's EMS system, overall revenues could be reduced by up to \$400,000. It is AP Triton's belief that the former (i.e., transports are redistributed) is the more likely outcome, though this is not known for certain.

Increase in the Required Number of Unit Hours

As noted above, AP Triton's projections assume that ambulance transports will increase by 2,000 transports per year; however, the number of unit hours per day remains constant over the proforma period and has not been adjusted to account for the increase in transports. According to AP Triton, the assumed number of unit hours should be sufficient in Years 1 and 2; however, the City may reach workload limits around Year 3 which would require additional unit hours. Upon implementing the Alliance Model, the Fire-Rescue Department will become responsible for ensuring EMS response times are within target. If the City reaches workload limits prior to Year 3 and response times begin to increase, more unit hours may need to be added. For illustration purposes, assuming one 24-hour unit is added in Year 2 to account for the 2,000 additional transports, system costs would increase by approximately \$2.1 million.

KEY CONSIDERATIONS

Start-up/Transition Cash Flow Deficits

Since Falck and AMR are already providing EMS service to the City, there are no significant start-up costs associated with the transition to the Alliance Model aside from the new dispatch personnel that are accounted for in AP Triton's expenditure estimates. However, there will be some start-up funding required to pay monthly costs while the system generates revenue that has yet to be collected. This is a cashflow issue given the lag between when services/transports occur and when collections are received. AP Triton estimates that, at most, up to \$14.6 million in expenses could accrue through the fifth month of operations. After that point, this balance would be eliminated over time. According to the City's Chief Financial Officer (CFO), if the balance in the EMS Fund remains negative at the end of FY 2024, a one-day interfund loan from the General Fund will be required for financial reporting purposes.

Revenue Shortfalls

While there are several circumstances discussed in this report which could cause a revenue shortfall, the likelihood of there being a significant imbalance is low, particularly given the relatively short timeframe the Second Amendment is anticipated to be in effect. Under the Second Amendment, the City and Falck are required to hold status meetings to evaluate the Alliance Model two months after implementation and at six-month intervals thereafter. Based on those meetings and the City's experience operating under the Alliance Model, the Fire-Rescue Department expects to conduct a new Request for Proposal (RFP) process around the one-year mark that will either continue the Alliance Model or utilize a different EMS delivery method. In the long term, financial risks may remain but will be dependent on the outcome of the future RFP process.

While we believe that financial risks to the City in the short-term are low, *our Office recommends the Fire-Rescue Department continue to provide periodic updates to the Public Safety Committee, including financial updates with fiscal year-end projections. Our Office suggests that these updates occur following the first status meeting between the City and Falck, and at least quarterly thereafter.*

If there is a projected revenue shortfall following implementation, the General Fund may be impacted. It will be important for the City Council to understand the extent of that impact and the options available to mitigate it. Potential options could include increasing patient transport charges or enhancing recovery rates through a more proactive collections policy for unpaid bills/copays; alternatively, the Council could allow the General Fund to subsidize the shortfall.

Reserve Funds

Our Office recommends the Fire-Rescue Department work with the Department of Finance to develop an EMS Fund Reserve Policy to be incorporated into Council Policy 100-20 “Reserve Policy.” Target reserve levels should be a percentage of the total operating costs to ensure the model does not impact the General Fund in future years. As noted earlier in this report, the potential loss of PP-GEMT IGT Program add-on reimbursements, should be taken into consideration. Given the expectation for cash flow deficits during the transition period, a phased funding approach for the reserve is likely necessary; therefore, a timeframe for meeting reserve targets should be included in the EMS Fund Reserve Policy

Budgetary Impacts

Revenue and expenditure adjustments to the EMS Fund’s FY 2024 Adopted Budget are necessary to account for anticipated changes under the Alliance Model. Table 4 below reflects projected budgetary impacts assuming an October 1, 2023 implementation date.

Table 4: Projected FY 2024 EMS Fund Budget Impact⁽¹⁾

Estimated Revenue	
Revenue From Projected Collections	\$84,962,355
Falck Fee-For Service	(\$6,159,542)
Falck Station Rent	(\$801,800)
Falck Dispatch Center Payments	(\$225,000)
Total Revenue	\$77,776,013
Estimated Expenditures	
New Alliance Model Expenditures ⁽²⁾	\$73,864,076
Reduction of Transfers Out to General Fund	(\$5,306,473)
Total Expenditures	\$68,557,603
Projected Fund Balance	\$9,218,411

(1) Assumes Alliance Model Implementation on October 1, 2023

(2) Excludes Current EMS Division Operating Expenditures

Of note is the proposed reduction of \$5.3 million in Transfers Out to the General Fund from the EMS Fund. According to staff, the purpose of this reduction is to retain this funding within the

EMS Fund and reinvest it in the EMS restructuring. According to the CFO, the impact of this reduction to the General Fund will be discussed in the FY 2024 Mid-Year Budget Monitoring Report.

With respect to revenue adjustments, FY 2024 EMS Fund revenues are projected to increase by \$77.8 million assuming an October 1, 2023, implementation date. This includes \$85.0 million in new projected collections offset by \$7.2 million in reduced revenue from Falck that will no longer be received by the City under the Second Amendment. Projected new expenditures under the Alliance Model total \$73.9 million largely offsetting the anticipated increase in revenues. When accounting for the \$5.3 million proposed reduction in Transfers Out to the General Fund, the fund balance for the EMS Fund is projected to be \$9.2 million (net total accrual).

CONCLUSION

The City Council is being asked to approve the Second Amendment to the City's current Contract with Falck and other related actions that will allow the Fire-Rescue Department to fully transition to an Alliance Model for EMS delivery. If the Alliance Model is implemented as planned, the Fire-Rescue Department will gain full control and management of the ambulance system. The EMS system will also receive additional revenue through DHCS's PP-GEMT IGT program that is only available to public providers. While these benefits are advantageous to the City, they bring with them added responsibilities and financial risks. This report discusses these risks, as well as other key considerations for the City Council.

While we believe that financial risks to the City in the short-term are low, *our Office recommends that the Fire-Rescue Department continue to provide periodic updates to the Public Safety Committee which include financial updates with fiscal year-end projections. Our Office suggests that these updates occur following the first status meeting between the City and Falck, and at least quarterly thereafter.*

Further we recommend that the Fire-Rescue Department work with the Department of Finance to develop an EMS Fund Reserve Policy to be incorporated into Council Policy 100-20 "Reserve Policy."



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