
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Emergency Medical Services Interim Agreement

OVERVIEW

The City Council is being asked to authorize a two-year agreement with Rural/Metro Corporation (Rural/Metro) for the provision of Emergency Medical Services (EMS) on or before July 1, 2011. According to a memorandum from the Administration Department dated June 6, 2011, the City Attorney has advised that the City should restructure the manner in which EMS is currently procured. The memorandum further indicates that the proposed new agreement has been developed with the Office of the City Attorney and addresses issues/concerns associated with the San Diego Medical Services Enterprise (SDMSE) partnership arrangement.

The proposed two-year agreement would replace and supersede the 2010 EMS Agreement with SDMSE. SDMSE is a limited liability company between the City of San Diego and Rural/Metro. If the proposed agreement is approved, the City will transition the provision of EMS services from a public-private partnership model to a traditional City-vendor contract arrangement with private sector provider Rural/Metro.

In order to facilitate transition to a City-vendor contract, Rural/Metro has agreed to purchase the City's ownership interest in SDMSE with a one-time buy-out payment. Rural/Metro has further agreed to pay the City an annual operational fee for two years. City staff has negotiated four Buy-out and annual Operational Fee options with Rural/Metro for City Council consideration. Each option has a different impact on the maximum Average Patient Charge (APC). The APC is the maximum average fee for medical transportation originating from the 9-1-1 service.

The FY 2012 General Fund Budget included \$4 million of new ongoing revenue to achieve greater cost recovery of EMS program costs. This report discusses total City

EMS costs and the amount of cost recovery included in the FY 2012 Budget. We also comment on whether the new \$4 million EMS revenue included in the FY 2012 Budget is achieved by each of the four options presented for the proposed interim agreement. The report additionally discusses comparative APC data, plans to issue a RFP for future EMS services and other considerations associated with the proposed interim agreement.

FISCAL/POLICY DISCUSSION

City Costs Associated with EMS Response

The Fire-Rescue Department estimates the total cost associated with EMS response to be approximately \$17.7 million. This total is comprised of the following cost components:

- \$ 3.9M - Cost of Developing/Maintaining ALS First Response Capability
- \$ 7.0M - Annual Medical Aid First Responder Costs
- \$ 5.7M - Annual City EMS Expenses Currently Reimbursed by SDMSE
- \$ 1.1M - Other EMS Support Costs (Facilities, Medical Director, Program Mgr., etc.)
- \$17.7M - Total Estimated City Cost Associated with EMS Response**

The FY 2012 budget includes the following EMS cost recovery:

- \$ 5.7M - Reimbursement from SDMSE for City EMS expenses
- \$ 4.0M - Proposed new ongoing revenue to achieve greater EMS program cost recovery
- \$ 1.5M - Estimated profit sharing distributions from SDMSE
- \$.37M - Other reimbursable EMS expense (Medical Director/EMS Contract Admin.)
- \$ 11.57M - Total EMS Cost Recovery Included in FY 2012 Budget**

Using the above totals, the FY 2012 budget includes \$11.57 million of EMS cost recovery - approximately 65% of the \$17.7 million total EMS response cost. Without the new \$4 million of ongoing revenue to achieve greater EMS program cost recovery in FY 2012, the City would only recover approximately 43% of the \$17.7 million total EMS response cost.

Development of the FY 2012 Budget - Additional \$4M of EMS Cost Recovery

At the Audit Committee meeting on May 2, 2011, the City Auditor presented the findings of a performance audit of the Fire-Rescue Department's EMS. The audit, in part, indicated the City annually incurs up to \$10.9 million of EMS response costs not being reimbursed by the SDMSE partnership.

In developing the FY 2012 Proposed Budget, management included \$4 million in new ongoing revenue to more fully recover EMS support expenses. Management informed the IBA that the \$4 million cost recovery budget figure was intended to recover the cost of developing and maintaining ALS First Response capability (noted as \$3.9 million above).

The Audit Committee requested the IBA review the reason the Proposed Fiscal Year 2012 Budget anticipated the City recovering \$4 million in EMS fire engine/truck first

responder-related costs instead of \$10.9 million, as suggested in the audit. It should be noted that the Proposed FY 2012 Budget was developed before the EMS audit was released in April 2011.

In response to the Audit Committee's question, management explained they only sought an additional \$4 million because 1) seeking 100% cost recovery would push the APC up to an extreme amount, 2) Rural/Metro could not absorb \$10.9 million without requesting an APC increase and 3) they were otherwise seeking a significant one-time transfer of equity (the Buy-out component of the proposed interim agreement) for SDMSE assets and whatever "good-will" value the enterprise has.

Will the Four Agreement Options cover EMS Cost Recovery built into the FY 2012 Budget?

In the proposed new agreement, Rural/Metro agrees to pay the City: 1) an annual City Operational Fee for two years, 2) a one-time Buy-out payment to purchase the City's ownership interest in SDMSE, and 3) the City's share of any undistributed SDMSE profits as of June 30, 2011. The City Council is being asked to consider four different options to receive the annual Operational Fee and the Buy-out payment. Each option results in a different APC over the two years.

In order to cover the amount of EMS cost recovery included in the FY 2012 budget, each option must provide the City with **\$23.14 million** over the two year period (\$11.57 million for both FY 2012 and FY 2013). Option 1 (\$26 million) and Option 3 (\$24.5 million) exceed \$23.14 million. Option 2 (\$21 million) and Option 4 (\$23 million) fall short of the \$23.14 million of EMS cost recovery budgeted in FY 2012 and expected in FY 2013.

Management has indicated the Mayor supports Option 3 although this is not stated in the available docket material. The APC associated with each of the four options will be an important consideration for the Council in deciding whether to support one of the four presented options for the proposed interim agreement with Rural/Metro.

With respect to the City's share of any undistributed SDMSE profits as of June 30, 2011, management currently expects there to be a distribution of approximately \$1.4 million.

Comparative APC Data - Within the County and the State

On July 1, 2011, the City's APC is scheduled to increase by 4.5% to **\$1,304.51**. In considering the four presented options for the proposed interim agreement, \$1304.51 should be viewed as the City's current APC.

Based on recent data from 21 cities/jurisdictions **within San Diego County**, APCs for residents range from a low of \$567 (Coronado) to a high of \$1,776 (Alpine). It should be noted that some cities/jurisdictions: have different rates for residents and non-residents (higher rates); may also have other ancillary charges (medication, EMT, supply, etc.) not reflected in their APC; and may have greater or lesser coverage/transport areas which can impact the level of APCs. The average APC for residents of the 21 surveyed cities/jurisdictions within San Diego County is approximately **\$1,094**.

Using 2010 survey data from 29 counties and cities **throughout the State**, APCs ranged from a low of \$930 (Madera County) to a high of \$2,510 (Monterey County). The average APC was approximately **\$1,468**. In determining the maximum APC increase they were willing to consider, management inflated this estimated statewide average APC by 20% resulting in a high APC of \$1,761 (this high APC is used in Options 1 & 3).

Plans to Issue RFP for EMS Services beginning in FY 2014

The two-year interim agreement with Rural/Metro is proposed on a sole source basis through FY 2013. Management is recommending a sole source agreement with Rural/Metro to provide continuity for EMS services until a competitive process can be completed. Given the importance of the planned EMS RFP, management is planning to hire a consultant to assist with design, development and review of the RFP.

In their memorandum dated June 6, 2011, the Administration Department discusses their plan to develop a RFP and provides a draft timeline. Of note, the memorandum states “Among other things, staff needs to identify, review and analyze different models of delivery in order to design the best model for the City.” The draft timeline is comprehensive and anticipates awarding a new EMS contract in February of 2013. Meeting this timeline will be important as there may be lead time required to transition to a new provider on July 1, 2013.

Other Considerations

Switching from a public-private partnership model to a traditional City-vendor contract model means the City is assured a fixed amount of revenue for EMS or other General Fund purposes. Rural/Metro or subsequent providers of EMS bear the risk and reward associated with APC collection. The IBA has been informed that Rural/Metro currently collects approximately 33% of patient charges. Rural/Metro has informed management that if the APC were raised from \$1,304 to \$1,761, the collection rate would fall to approximately 25%; however, they are willing to accept an agreement option with that APC. If Rural/Metro’s collection experience is better than anticipated, they benefit from additional revenue and vice-versa.

In accordance with a City Auditor recommendation, a full forensic accounting audit of SDMSE’s financial records over a 13-year period is currently planned. If the audit were to result in significant adverse findings related to Rural/Metro prior to the conclusion of the term of the proposed interim agreement, Section 14.1 enables the City to terminate the agreement. It should also be noted that Rural/Metro has purchased a \$7.5 million bond in favor of the City should the forensic audit substantiate any City claims against Rural/Metro.

CONCLUSION

The City Council is being asked to approve a resolution authorizing a two-year interim agreement with Rural/Metro on a sole source basis through FY 2013. Management is recommending a sole source agreement with Rural/Metro to provide continuity for EMS

services until a competitive RFP process can be completed. The RFP process is expected to be completed in February of 2013 to allow time for the implementation of a new EMS service contract beginning July 1, 2013.

Based on advice from the City Attorney, management is recommending a new EMS agreement at this time. The new agreement will transition the provision of EMS services from a public-private partnership model (SDMSE) to a more traditional City-vendor contract and address issues/concerns associated with the current partnership arrangement.

In the proposed two-year interim agreement, Rural/Metro agrees to pay the City: 1) an annual City Operational Fee for two years, 2) a one-time Buy-out payment to purchase the City's ownership interest in SDMSE, and 3) the City's share of any undistributed SDMSE profits as of June 30, 2011. The City Council is being asked to consider four different options to receive the annual Operational Fee and the Buy-out payment. Each option results in a different APC over the two years.

The IBA notes the following with respect to the proposed two-year interim agreement:

- Two of the negotiated options (1 and 3) exceed the \$23.14 million of EMS cost recovery budgeted for FY 2012 and expected for FY 2013. The other two options (2 and 4) fall short of this amount.
- In considering the four options presented, the resulting APC is a significant consideration. We have provided comparative APC data from within the County and the State.
- By switching to a City-vendor EMS contract the City is assured a fixed amount of revenue for EMS or other General Fund purposes. Rural/Metro or subsequent providers of EMS will bear the risk and reward associated with APC collection. If Rural/Metro's collection experience is better than anticipated, they benefit from additional revenue and vice-versa.
- A full forensic accounting audit of SDMSE's financial records over a 13-year period is currently planned. If the audit were to result in significant adverse findings related to Rural/Metro prior to the conclusion of the term of the proposed interim agreement, Section 14.1 enables the City to terminate the agreement.

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Jeff Kawar
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst