



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** April 6, 2021

**IBA Report Number:** 21-07

**City Council Docket Date:** April 13, 2021

**Item Number:** TBD

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# IBA Review of EMS Services Financial Analysis

## INTRODUCTION

On February 10, 2021, the Public Safety & Livable Neighborhoods Committee was asked to consider forwarding to the City Council a Contract with Falck Mobile Health Corp. for Emergency Ambulance Service, 9-1-1 Response, Advanced Life Support Transport, and Standby Service. Included within the supporting docket materials was a report titled “EMS Services Financial Analysis for San Diego Fire-Rescue Department” which was prepared by AP Triton Consulting, LLC (the Consultant or AP Triton) to: (1) assess overall financial stability of Falck USA as a company; and (2) assess the viability of the deployment model proposed by Falck, including the expenses projected against the projected revenue.

While AP Triton found Falck USA to be a “well-established and financially sound company,” their report projected revenue shortfalls associated with the deployment model proposed for San Diego which garnered significant discussion at Committee. In the approved motion moving the item forward to Council without recommendation, the Committee requested our Office to provide a report weighing in on AP Triton’s comments about revenue projections, including a comprehensive review of labor issues, and an analysis of the cost to re-bid the Request for Proposal (RFP). This report addresses this request, with the exception of the comprehensive review of labor issues, which we were unable to achieve for reasons we discuss later in our report.

# FISCAL/POLICY DISCUSSION

## Review of AP Triton’s Financial Analysis

During the Committee Hearing, Councilmembers raised concerns regarding the deployment model viability analysis (Analysis) within the AP Triton Report. While the report states that “[a]fter careful review of the RFP itself and the response by Falck, [AP Triton] were able to come to certain conclusions that support the selection of Falck as the supplier of ambulance services to the City,” the Analysis estimates that Falck could come up approximately \$6.1 million short of the revenue needed to cover the estimated costs included in the proposal, based on the modelling and assumptions made by the Consultant. After carefully reviewing the Analysis, our Office has come to a similar conclusion: while it is mathematically difficult to demonstrate how Falck will cover their revenues, given the confines of the RFP and current available information, there are other reasons to believe that Falck will be able to meet their revenue needs in order to operate at a profit.

### Breaking Down the AP Triton Model (9-1-1 Transports)

As presented in the Analysis, the Consultant estimates that the total amount of revenue that Falck would be able to generate from the 9-1-1 system would be approximately \$6.1 million below Falck’s estimate of expenses required to provide the proposed service levels (\$74.0 million), as outlined in their response to the RFP. The derivation of this estimate based on AP Triton’s financial model is summarized in the table below.

<b>Table 1: AP Triton Revenue Analysis</b>					
<b>Cost Center</b>	<b>% of Transports</b>	<b>Total Transports</b>	<b>Rates</b>	<b>Recovery %</b>	<b>Reimbursement</b>
Medi-Cal	31.1%	31,473	\$339	100%	\$10,669,347
<i>Non-transport</i>	<i>20.0%</i>	<i>2,734</i>	<i>\$78</i>	<i>100%</i>	<i>\$213,252</i>
Medicare	31.4%	31,777	\$600	100%	\$19,066,200
<i>Non-transport</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Commerical Ins	9.2%	9,310	\$2,748	80%	\$20,468,668
<i>Non-transport</i>	<i>20.0%</i>	<i>809</i>	<i>\$400</i>	<i>80%</i>	<i>\$258,880</i>
Private Pay	16.9%	17,103	\$2,748	10%	\$4,700,264
<i>Non-transport</i>	<i>20.0%</i>	<i>1,486</i>	<i>\$400</i>	<i>10%</i>	<i>\$59,440</i>
Contracts/Capitated	11.4%	11,537	\$1,074	100%	\$12,392,007
<i>Non-transport</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
<b>Total</b>	<b>100.0%</b>	<b>101,200</b>			<b>\$67,828,058</b>
<b>Expense</b>	<b>100.0%</b>	<b>101,200</b>			<b>\$73,974,000</b>
<b>Difference</b>					<b>-\$6,145,942</b>

The Consultant and Falck are generally in agreement with respect to both the total number of transports, as well as the manner in which those transports are divided into different payer categories. These datapoints were provided in the RFP and are based on the current ambulance provider’s actual service data. The Consultant and Falck are also generally in agreement with the majority of the rates that were used in AP Triton’s model to determine the reimbursement amounts provided in the table. Medicare and Medi-Cal rates are determined by federal and state regulations, respectively, and are nonnegotiable. The Commercial Insurance and Private Pay rates are based

on the rate schedule provided in the RFP and in the Falck proposal. While both of these payer categories have discounts applied, the discounts are considered reasonable, especially for the Private Pay as this category mainly represents individuals without health insurance coverage. Falck does contend that they can do better at revenue recovery within these two payer groups. However, during the Committee hearing, Falck did not raise substantial exceptions to this part of the Consultant's model.

This then leaves the assumed rate for Contract and Capitated transports, which is the main variable within AP Triton's model that is driving the projected loss. Contract and Capitated transports, and the rates associated with them, are based on negotiations between ambulance providers and various clients, such as hospitals, care facilities, and other providers. Examples within San Diego could include entities such as Kaiser Permanente, Sharp Healthcare, Scripps Health, UC San Diego Health, among others. Contracted rates tend to be considered propriety information in the health care sector, therefore information related to these rates has not been made available by the incumbent provider or its various clients. For this reason, this is the sole revenue center where it is difficult to determine who is more accurate in their projections between the Consultant and Falck.

In their model, the Consultant utilized an assumed rate of \$1,074 for these transports which their Analysis cites as the "median" between the Medicare rate (\$600 per transport) and the Commercial rate (\$2,748 per transport). We note that a calculation for the actual median between these two rates provides a result of \$1,674 which, if utilized as the assumed rate, would have resulted in an overall net profit of \$0.7 million rather than a loss of \$6.1 million. Thus, for Falck to break even on the system, they would need the average rate for these transports to be somewhere closer to the actual median rate. However, in discussing this issue with the Consultant, we were informed that they chose to use a more conservative approach, in the end utilizing \$1,074 based on their experience with where these average rates normally work out.

What this illustrates is the fact that Falck's overall profitability for emergency (9-1-1) transports will be highly dependent on the rates that they ultimately negotiate for Contract and Capitated transports. If the Consultant's assumed rate of \$1,074 is correct, Falck may in fact realize a loss of approximately \$6.1 million in the first year of the contract; with that said, for each \$100 that is negotiated in excess of the Consultant's per transport rate, the overall loss would be reduced by approximately \$1.2 million, thereby demonstrating the acute sensitivity of this variable within AP Triton's model. Further, Falck has reiterated, both in their proposal as well as to the Consultant, that they feel that they can outperform both the current incumbent as well as the Consultant's assumptions based on their performance in other markets.

In addition, a noteworthy consideration that was not raised in the Consultant's Analysis is the fact that Falck's estimate of operating costs totaling \$74.0 million, includes \$3.1 million in startup costs, which are one-time costs that will only be incurred in the first year. Therefore, if the Consultant's model were modified to show the potential ongoing loss within the 9-1-1 system after year one, changing nothing else within their assumptions, the estimated loss would be reduced to \$3.0 million.

## Contracted and Capitated Agreements: Non-Emergency Transport Revenue

Contracted and Capitated Agreements, which create a different transport rate structure compared to those applied generally to other commercial insurers, are typically entered into if beneficial to both counter parties. For ambulance providers, an additional benefit, beyond rate certainty, is the contracted right to provide other, non-emergency services for these clients, mainly Inter Facility Transfers, or IFTs. These non-emergency transports provide the ambulance provider with additional revenue, without necessarily increasing costs since they can utilize idle ambulances within the 9-1-1 system that are not providing service at that moment to fulfill the IFT calls.

In discussions with the Consultant, they noted that they did not include any potential IFT revenue in their model since these services are provided outside of the RFP and the agreement between Falck and the City. However, the Consultant did express to our Office that the provision of these IFT services can potentially lead to a greater amount of overall revenue for the ambulance provider given that they would be able to utilize existing ambulances within the 9-1-1 system to provide these transports. Further, since these transports are created on a mutually beneficial basis, the Consultant also stated to us that it is reasonable to assume that an ambulance provider, such as Falck, would not agree to such low rates on Contract and Capitated transports as to force them to operate the entire system at a loss.

### Service Delivery Guarantees

While the Consultant cannot mathematically demonstrate that Falck will make enough revenue to cover their expenses, it is plausible that Falck could make up the shortfall through better negotiated rates or through the provision of IFT services outside of the RFP. Due to these circumstances, the Consultant ultimately recommended that the City could go ahead and award Falck the contract. However, since it is an open question as to whether Falck can meet their revenue needs, the City also had the Consultant conduct an analysis on the financial health of Falck as a company. If a loss were to happen under this contract, that loss would fall on the parent company, the Falck Group. As noted in the Consultant's Analysis, Falck is a financially stable company that offers comparable services all over the country and internationally. This also includes the state of California, with locations as near as Orange County. The Consultant also determined that Falck is a "secure and stable company."

While the Consultant determined that Falck, as a financially secure company, could absorb a loss should one occur within the City's 9-1-1 system, we also sought information on what other avenues the company could potentially take in order to mitigate such losses. Based on our understanding, there is not much that Falck could do, absent a major contract modification that would require Council approval. The service levels contained in the Falck proposal are included in the contract terms and are conditions of the contract itself. While there are penalties for underperformance on service delivery times within the contract, should Falck attempt to remove ambulances or substantially decrease staffing levels, they would be in breach of the contract itself. This would allow the City to take action, if necessary, to ensure Falck remains in compliance with the terms. It should also be mentioned that the patient charges, including the Commercial Rate previously mentioned, are set by the terms of the contract, and cannot be increased beyond the inflationary

adjustments stipulated in the terms of the contract without Council approval through a contract amendment.

### Monitoring Provisions

Given that there is some revenue uncertainty in the Consultant's estimates, their report recommends that a reporting system be created that uses standard reporting for the various revenue cost centers. The Consultant also recommends that Falck and City management teams meet monthly and quarterly to specifically discuss the financial aspects of the program in order to monitor the revenue situation and ensure that any potential mitigation measures can be considered before more drastic action is required. Our understanding is that both Falck and the Fire-Rescue Department have agreed to this recommendation, which our Office fully supports.

### Review of Labor Issues

Based on our review of Falck's response to the RFP, the Falck Group Parent Company appears to have significant experience both nationally and internationally, citing themselves as the largest international ambulance service provider. Areas of service outside of the United States include Denmark, Sweden, Spain, Germany, Colombia, Equator, and Australia among others; nationally, they operate in California, Oregon, Colorado, Michigan, Georgia, Mississippi, Massachusetts, New Hampshire, and Maine.

With numerous and dispersed areas of operation, conducting a comprehensive review of all labor issues surrounding the Falck Group, as discussed during the PS&LN Committee meeting, would require a significant effort which is unfortunately beyond the capacity of our Office. Moreover, it is not clear how successful we would be in attempting this type of review. We would expect most labor organizations to be unwilling and/or unable to discuss pertinent issues surrounding active negotiations; of those who are willing and able, it would be difficult to judge the reliability of any information gained given inherent motivations during the labor bargaining process.

In addition, the EMS provider operates as an independent contractor of the City, and its employees are not City employees. Therefore, the City is not involved in the labor issues that may arise between the City's EMS provider and its non-City employees. Even if our Office could conduct a comprehensive review of labor issues, generally speaking, the City is not involved in labor issues, such as meet and confer related to wages and benefits. However, the EMS provider must comply with the "City's General Contract Terms and Provisions Applicable to Goods, Services, and Consultant Contracts" (Contract, Exhibit C), the City's Living Wage Ordinance (Contract, Article IV), and must complete a Contractor Standards Pledge of Compliance (Contract, Exhibit B.)

### Cost to Re-bid EMS RFP

To estimate potential costs associated with rebidding the EMS RFP, our Office reviewed estimated staff time and other substantive costs that were incurred during the current RFP process. The table below outlines these estimated costs totaling approximately \$129,000. While we cannot know for sure whether the same overall amount of staff time would be expended under a new RFP re-bidding process, it is reasonable to assume that the costs to do so would be at, or below this estimate.

**Table 2: Estimate Costs Associated with Current EMS RFP Process**

RFP Process Stage	Contributing Department			Totals
	Fire-Rescue	DCCO/P&C	CAO	
Preparation and Development	144	-	20	164
Pre-solicitation/Solicitation	4	22	-	26
Evaluation	212	31	-	243
Award/Post Award	35	10	3	48
PRA's and Protests	44	40	95	179
AP Triton	12	21	4	37
Negotiation	19	30	18	67
Other	-	32	-	32
<b>Total Estimated Hours</b>	<b>470</b>	<b>186</b>	<b>140</b>	<b>796</b>
<b>Total Estimated Personnel Cost</b>	<b>\$71,300</b>	<b>\$19,400</b>	<b>\$12,900</b>	<b>\$103,600</b>
<b>Total Non-Personnel Costs (AP Triton)*</b>				<b>\$25,000</b>
<b>TOTAL ESTIMATED COSTS</b>				<b>\$128,600</b>

\* Reflects the “not-to-exceed” value of the contract with AP Triton Consulting LLC.

In addition to the costs that would be associated with re-bidding the EMS RFP, the Fire-Rescue Department has provided our Office with a memorandum outlining the non-financial impacts that would be associated with contract execution delays, which the Purchasing and Contracting Department estimates could extend beyond a full year. The Fire-Rescue Department’s memorandum and an estimated timeline for re-bidding the RFP are attached.

## CONCLUSION

Based on our understanding of the contract terms, and the revenue modeling provided by the Consultant, we conclude that it is feasible for Falck to raise enough revenue from the 9-1-1 system, as well as other ambulance transportation services, to operate at the level of service provided for in their proposal. We base this conclusion on a number of factors, including:

- The possibility that Falck will recover more revenue from Contract and Capitated transports than modeled due to the potentially low average rate utilized in the model;
- Falck will likely receive additional revenue from IFT transports that are not included in the Consultant’s revenue projection;
- The estimated cost of service includes \$3.1 million in startup costs that will only need to be addressed in the first year; and
- Falck in their proposal highlights their ability to generate greater revenues from the system based on their experience in other markets.

We would also reiterate that, should Falck experience a revenue loss under this contract, such a loss would fall to their parent company, which the Consultant determined to be a financially sound company. Further, our Office is also in strong support of the provision recommended by the Consultant, and agreed to by both Falck and the Fire-Rescue Department, that a reporting system

be created that uses standard reporting for the various revenue cost centers, as well as the recommendation that Falck and City management teams meet monthly and quarterly to specifically discuss the financial aspects of the program.

Our Office also strongly recommends that representatives from AP Triton be available at the Council meeting to answer questions and more fully explain their analysis.



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- Attachments:
1. EMS Services Re-Bid Estimated Timeline
  2. Fire-Rescue Department Memorandum Regarding Non-Financial Impacts to the EMS System caused by Extended Contract Delays



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: March 3, 2021

TO: Colin Stowell, Fire Chief

FROM: Chris Heiser, Deputy Fire Chief, Emergency Medical Services

SUBJECT: Non-financial impacts to the EMS system caused by extended contract delays

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The City EMS system has been operating under the current 2011 Emergency Medical Services Agreement, with five amendments that were all focused on sustainability. The proposed contract with Falck will be the first major upgrade to the EMS system in 11 years introducing the latest technology and addressing deficiencies identified in the existing contract. Continued delays affect the Fire Department's ability to provide Emergency Medical care to the community in the most efficient manner. The following points summarize these conditions and identify benefits of accepting the current contract as well as the impacts of any delay:

Facilities

**Real estate conflicts** - The current ambulance contractor utilizes City-owned facilities for ambulance supply distribution and vehicle maintenance. The fire department needs this space and plans to develop the property for department purposes once it is vacated. The new contract requires the contractor to obtain new space for this purpose. **The space will be available upon change of contract.**

Homeless and mental health population initiatives

**Understaffed program** - Community health initiatives (RAP) are understaffed and partially stalled. SDFD is operating as a pilot site related to new legislation with time sensitive deliverables. **Upon implementation of the new contract, RAP will gain 4 additional positions to assist.**

Service delivery

**Outlier response times** - The current contract does not have protections against extremely long response times, which represent significant delay in patient care and transport, with possible adverse outcomes. Falck understand and agrees that penalties for outlier response times will be assessed.

**Missed opportunities for innovative service delivery** – Recent California State legislation allows for alternate service delivery models that would help the EMS public safety net avoid long hospital wait times and bring patients to the right system of care (mental health and sobering facilities). Additionally, recent programs by the Centers for Medicare and Medicaid Services (CMS) could provide financial sustainability for new care models, but participation requires a long-term ambulance contractor.

## Equipment

**Aging cardiac monitors** – Cardiac monitors are scheduled for replacement. The new contractor is required to provide these cardiac monitors.

**Aging ambulance fleet** – The current ambulance vehicle fleet is aging. Falck has committed to providing new ambulances.

**Missed equipment opportunities** – Mechanical CPR devices (not currently in use in the City of San Diego) will be provided by Falck upon start of the new contract. These devices minimize interruptions in resuscitation and reduce care provider injury and fatigue, allowing for improved patient care.

Falck will incorporate Genesis PULSE technology integrated with Waze to enhance system status management.

Falck will introduce fatigue monitoring through video analytics to reduce risk

## Labor

**Workforce uncertainty** – Workforce uncertainty related to repetitive bids affect working conditions for field responders.

**Missed staffing hours** – Falck has committed to 1000+ daily unit hour staffing, which will provide improvement in unit hour utilization for care providers.

## EMS Services Re-Bid (hypothetical) Estimated Timeline

	Task	Number of Days
1	RFP language modification process	30
2	RFP posting process	45
3	Review proposals received - Due Diligence	21
4	Preliminary evaluation process	30
5	Presentation process	21
6	Final scoring	7
7	Award recommendation process	15
8	Intent to award letters / 10 day protest period	15
9	Contract negotiation	30
10	Protest and CPRA requirements	120
11	Committee process	45
12	Council (first reading)	30
13	Council (second reading)-Ordinance	15
14	Contract authorized to be executed	30
15	Contract execution	5
	<b>Estimated Total Number of Days</b>	<b>459</b>

\* All timelines are estimates and subject to change.