



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Public Health
Department No.: 041
For Agenda Of: March 11, 2014
Placement: Departmental
Estimated Tme: 15 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Takashi Wada, MD, MPH, Director and Health Officer, Public
Director(s) Health Department
Contact Info: Dan Reid, Interim Deputy Director, 681-5173
SUBJECT: Clinical Laboratory Services with Pacific Diagnostic Laboratories

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Other Concurrence: Risk Management

As to form: Yes

Recommended Actions:

That the Board of Supervisors consider recommendations regarding a Clinical Laboratory Services Agreement with Pacific Diagnostic Laboratories as follows:

- a) Approve and authorize the Chair to execute a Clinical Laboratory Services Agreement with Pacific Diagnostic Laboratories for the period of March 4, 2014 to June 30, 2017, in an amount not to exceed \$120,000 annually and \$400,000 for the term of the agreement.
- b) Receive a public presentation on the contracting out of the PHD Clinical Laboratory Services.
- c) Determine that these activities are exempt from California Environmental Quality Act review per CEQA Guideline Section 15378(b)(4), since the recommended actions are government fiscal activities which do not involve commitment to any specific project which may result in a potentially significant physical impact on the environment.

Summary Text:

This item is on the Board agenda to execute an Agreement with Pacific Diagnostic Laboratories (PDL) for clinical laboratory services for County patients seen at the Public Health Department's Health Care Centers. The Clinical Laboratory Services Agreement will replace the existing combination of in-house and reference clinical laboratory services (for those testing services not able to be performed in-house) by utilizing a local commercial laboratory for all services. It is anticipated that this action will provide a higher level of customer service for patients and will lower costs to the County.

Background:

PDL is a local, commercial, State certified laboratory associated with Cottage Health Systems. PDL was awarded the bid for clinical laboratory services and patient service centers after an exhaustive Request for Proposal (RFP) process to contract out existing in-house and reference clinical laboratory services. The Public Health Department (PHD) chose to contract out its clinical laboratory services due to the reduction of more than \$7 million annually in the State’s Realignment funding that supports indigent patient care, as well as aging, and in some cases non-functional, laboratory testing equipment. This option allows PHD to provide the same or enhanced laboratory services without negatively impacting other direct patient care services. This action is taken as part of a budget gap mitigation plan that the department has developed, not only as a result of the loss in State funding, but also to stabilize finances, refocus priorities, enhance customer service, and prepare for future challenges and opportunities under the newly implemented benefit expansions of the Patient Protection and Affordable Care Act (ACA).

Service Level Impacts:

This PDL Clinical Laboratory Services Agreement is designed to enhance customer service by maintaining existing patient specimen collection locations while expanding service to additional Health Care Centers and allowing patients to access eighteen (18) existing PDL Patient Service Centers (PSCs) countywide. These existing PDL PSCs may be more conveniently located near their homes – many with extended and/or Saturday hours. Service arrangements surrounding the establishment of the PSCs will be organized into three separate leases with PDL; with each lease relating to the PSC at each of the three main County Health Care Centers: Santa Maria, Lompoc, and Santa Barbara. Rotating specimen collection services will be shared at the Franklin and Carpinteria Health Care Centers and courier services will be provided at the County Satellite Center locations. The three leases will be presented at a future hearing for Board consideration.

Since Clinical Laboratory services are primarily technical services that can achieve higher efficiencies and effectiveness by consolidation with and through larger entities, medical practices have been contracting out for these services in larger numbers over the past decade. Large laboratory systems, such as PDL, are able to achieve significant economies of scale, can stay abreast of the latest developments in the field, and can keep the costs of operations to a minimum. For a stand-alone medical system, such as the PHD, it is difficult to keep up with technology changes and techniques, as well as the replacement of equipment as it ages. Much of the existing laboratory equipment has exceeded its typical use expectancy and some equipment is broken and unusable. Replacement costs for laboratory equipment could potentially require a capital outlay of several hundred thousand dollars. Moreover, of the other five Clinic Counties (those counties that run clinics, but not a public hospital), four have contracted out their clinical laboratory operations: two in just the past seven years.

The chart below details how much the PHD was and is projected to expend on an in-house clinical laboratory (*County*), the revenues that could be generated (*revenues*) and the net cost. Thus, the PHD expects to save approximately \$1.3 million each year through this contracting out effort:

Fiscal Year	County	Revenues	Net Cost	Contracted	Savings
FY 12-13 (actual)	\$2,032,681	\$ (686,477)	\$ 1,346,204	\$ -	\$ 1,346,204
FY 13-14 (projected)	2,058,856	(686,476)	1,372,380	-	1,372,380
FY 14-15 (projected)	2,100,033	(755,124)	1,344,909	-	1,344,909
FY 15-16 (projected)	2,167,389	(792,880)	1,374,509	-	1,374,509
4 Year Average	\$2,089,740	\$ (730,239)	\$ 1,359,500	\$ -	\$ 1,359,500

PDL services will also include the development a new electronic interface that meets federal privacy and security mandates while linking the PHD Electronic Health Record with the PDL Laboratory Information System.

Fiscal and Facilities Impacts:

Budgeted: Yes

Fiscal Analysis:

<u>Funding Sources</u>	<u>Current FY Cost:</u>	<u>Annualized On-going Cost:</u>	<u>Total One-Time Project Cost</u>
General Fund			
State	\$ 7,000.00	\$ 20,000.00	
Federal	\$ 33,000.00	\$ 100,000.00	
Fees	\$ -	\$ -	
Other:			
Total	\$ 40,000.00	\$ 120,000.00	\$ -

PDL will bill all third party payers directly for any clinical laboratory services for PHD patients eligible for third party coverage such as Medicare or Medi-Cal. PDL will charge self-pay patients on a sliding fee scale that will reduce laboratory diagnostic testing and specimen collection fees for patients that are not eligible for any third party payer coverage (it will also provide better pricing than PHD is currently able to offer for those under 100% of the federal poverty level). The \$400,000 cost estimate over the term of this Agreement is for clinical laboratory services for PHD patients that are eligible for programs administered by the Public Health Department. These include the Ryan White Program, Healthcare for the Homeless Program, the Tuberculosis Program, and the newly created Indigent Care Program. Tuberculosis and each of the other programs is largely supported by state and/or federal funding. These are not new or additional costs but rather reallocated to PDL as part of this agreement as all clinical laboratory services will henceforth be performed by PDL. The timing of these Fiscal Year 13/14 costs may vary due to the timing of the development of the laboratory information system interface with the PHD Electronic Health Record. The cost estimates are at State Medi-Cal rates and are based upon historic utilization in these programs. With the advent of Health Care Reform, these costs should decrease to the County over time as many of these current patients will qualify for expanded Medi-Cal coverage or private insurance through Covered California.

Key Contract Risks:

This Agreement involves Limited Liability Corporation, Pacific Diagnostic Laboratories (PDL), associated with Cottage Health Systems. PDL (established in 2007) was previously “MGP Laboratories” which operated in association with Cottage Health Systems for many years.

Santa Barbara County and Cottage Health System have contracted on many similar medical services for many years. Because of this long-term, stable history, the County has agreed to modify its standard agreement to allow for mutual elements such as:

- Section 11 No Publicity or Endorsement without each party’s notification and acceptance.
- Section 15 Mutual Indemnification and Section 16 Self-Insurance, this is standard in other County and Cottage Health System agreements and the Cottage Health System self-insurance meets or exceeds County standards.

- Section 20 Termination allows for both entities to terminate the Agreement for convenience with 90 day notice after the exclusivity period of twenty four (24) months.

Both PDL and Cottage Health Systems have a solid financial status. This initial Agreement is for a three year period with an exclusivity clause two years. Although an exclusivity clause normally can be a bit of a barrier if a change in service provider be considered, in this instance, both PHD and PDL have mutual interests in ensuring a long-term relationship. PDL and PHD are investing significant funding and staff resources to establish an electronic interface between the PHD Electronic Health Record (EHR) and the PDL Laboratory Information System. In addition, PDL and the PHD are investing resources to establish the new Patient Service Centers in the three largest PHD Health Care Centers.

PDL and PHD have agreed to use a third party vendor, Liaison software, to develop the EHR interface. Liaison has experience with the development of over 200 interfaces nationwide between the GE Centricity EHR and Laboratory Information Systems. Although the PDL Laboratory Information System has not been previously interfaced with a GE EHR, involvement of Liaison brings additional experience and resources to ensure a successful outcome. Finally, this Agreement reduces the County's current financial risk by shifting the billing and collection of third party payer reimbursements from PHD to PDL. If changes to Medicare or Medi-Cal or other third party reimbursements were to occur, the County would be unaffected by those changes for clinical laboratory services. Although the County was successful in reducing the share of costs for its self-pay and uninsured patients, this Agreement will further that effort while also eliminating PHD's billing and collection costs. Additionally, the PDL sliding fee scale for PHD self-pay patients is equal to or better than what can be offered by PHD. Finally, this Agreement will reduce PHD's liability by eliminating licensing, equipment maintenance and quality assurance; all of which will be borne by PDL.

Staffing Impacts:

Clinical laboratory testing is currently performed at the Santa Barbara and Santa Maria Health Care Centers and a laboratory draw station with specimen preliminary preparation is also provided at the Lompoc Health Care Center. As a result of this Board Action, the Public Health Department will eliminate the following staff positions and full time equivalents:

Positions	FTE	Job Class	Title
1	1	3935	Health Services Laboratory Supervisor
4	4	1748	Clinical Laboratory Scientist Sr.
1	1	1736	Clinical Laboratory Scientist
8	7	4540	Laboratory Assistant
1	1	7009	Financial Office Professional II

PHD has worked closely with CEO/HR to ensure that the Union and staff have been notified within existing protocols and to determine if existing staff have other County employment opportunities. Two of the identified staff will be transferred to other positions within PHD upon cessation of clinical laboratory services. Two staff members have sought and accepted employment with another service provider in the community and three staff members have chosen to retire from the County. Thus, this situation is highly fluid as ordinance staff leave for new opportunities, additional extra help and contract staff have been engaged to sustain operations through the transition.

For any staff remaining at the time of the final transition, PDL has offered to provide meetings with their Human Resources Recruiter and to interview all PHD staff interested in current openings, either with

PDL or Cottage Hospital, or position openings as a result of this Agreement. In addition, remaining staff will be notified as new opportunities arise in the PHD or other County departments through the transition period.

Special Instructions:

Please execute two (2) original PDL Clinical Laboratory Services Agreements and retain one (1) original Agreement and one (1) Minute Order for pick-up by the department. Please email phdcu@sbcphd.org when available for pickup.

Attachments:

Clinical Laboratory Services Agreement with Pacific Diagnostic Laboratories.

Authored by:

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