

**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
Department No.: 041
For Agenda Of: February 3, 2015
Placement: Administrative
Estimated Tme:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Takashi Wada, MD, MPH, Director and Health Officer
Director Public Health Department
Contact Info: Darrin Eisenbarth, IT Manager, Public Health Department
681-5293

SUBJECT: Amendment to Agreement with McKesson Information Systems, LLC

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 considers the following recommendations:

- A. Approve, ratify, and authorize the Chair to execute the Amendment (#P15000027) to License Agreement (#C0407770) with McKesson Information Solutions LLC that includes software licensing, maintenance, anticipated upgrades and processing services for patient billing in an amount not to exceed \$567,600, for the period June 1, 2014 through May 31, 2017. McKesson is not a local vendor.
- B. 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:

The Public Health Department has used practice management software provided by McKesson for over twenty-five years. The computer application provides registration, appointment scheduling, and patient billing processing including statements, insurance claims and electronic remittance. Your Board has previously approved this agreement with the most recent approval taking place on June 21, 2011. Approval of this Amendment will enable the continuation of this mission-critical practice management system through May 31, 2017. The Amendment requires ratification as although Public Health initiated this process in April 2014, the requested new amendment was not received until September 2014. The

assignment of new a McKesson Account Manager who was unfamiliar with our public entity contracting procedures delayed the process further while staff worked to bring the Amendment forward.

Background:

The Public Health Department provides direct medical services to residents of Santa Barbara County at five health care centers and three satellite locations. The McKesson practice management system has been in place since 1989 and provides patient scheduling, registration and billing services for efficient clinic management and maximizing revenue. Annual patient billing revenue generated by the system is approximately \$30,000,000.

The following table illustrates the cost per year for the three (3) year term: June 1, 2014 through May 31, 2017:

	Component	FY 14/15	FY 15/16	FY 16/17
1.	Annual software maintenance fee	90,000	93,600	97,500
2.	Technical support (billed on an hourly basis)	3,500	3,500	3,500
3.	Insurance claims and remittance processing services	50,000	52,000	54,000
4.	Anticipated software upgrade costs	100,000	over 3 years	
5.	Additional concurrent user licenses	20,000	over 3 years	
	Grand total:			\$567,600

The following is an explanation of each itemized cost:

1. Annual software maintenance fees can increase at either the Employment Cost Index (ECI) or the Consumer Price Index (CPI), U.S. city average published by the Bureau of Labor Statistics. An average 4% increase was used in the above table.
2. Technical support calls are billable if the problem is specific to our organization, such as a custom interface. The current billable rate is \$165/hour. PHD has averaged approximately 20-25 hours per year.
3. McKesson subcontracts with Diamond Healthcare for the actual printing of the patient statement for which we have a separate contract. Therefore, those costs were removed from this contract and only the cost of claims and remittance processing remain.
4. McKesson distributes a major version upgrade approximately once per year. The department can expect to incur database expenses as well as modifications to our existing interfaces. An estimated \$100,000 in expenses related to version changes is projected over the next three years.
5. Licensing costs are based on concurrent users of the application. McKesson reviews the average count of concurrent users on an annual basis.

Risk Assessment:

This agreement was assessed to be high risk but only marginally. The main reason for the assessment is that it falls into the category of large (over \$500K). However, the cost of \$567,600 is to be spread out over 3 years. McKesson is a financially stable company with a long standing relationship with the Public Health Department. The other reason for assessing it at high risk is the source of funding. Although this agreement is mostly funded with Federal/State funds, the source is Medi-Cal and Medicare which have proven to be a stable funding source for the department.

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	\$ 77,070.00	\$ 80,661.00	\$ -
Federal	\$ 80,740.00	\$ 84,502.00	\$ -
Fees	\$ 25,690.00	\$ 26,887.00	\$ -
Other:			
Total	\$ 183,500.00	\$ 192,050.00	\$ -

Narrative: The McKesson practice management system is very important to the financial viability of the Public Health Department. This is because an accurate and flexible billing system is not only essential for optimal reimbursement, but is also essential for good patient information for data-driven decision making.

The funding for these costs is provided through a combination of Medi-Cal, Medicare, and other patient service funding. The appropriation is included in the Health Information Technology cost center of the Public Health Department's Administration and Support Division of the County's adopted FY 2014-15 Budget.

Special Instructions:

Please execute two (2) original McKesson Amendments (#P15000027) and return one (1) original McKesson Amendment and one (1) Minute Order to Kelly Lazarus. Please email phdcu@sbcphd.org when available for pickup.

Attachments:

Amendment #P15000027

License Agreement #CO407770

Contract Supplement 1-BJ3U7

Amendment #P0829089

Amendment #P1245355

Authored by:

Kim Loyst, Systems Analyst, Public Health Department