



BOARD OF SUPERVISORS  
AGENDA LETTER

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

Agenda Number:

# 3

REPLACEMENT # 1  
DATE 1/30 TIME 1:00pm

Department Name: Public Health  
Department No.: 041  
For Agenda Of: February 3, 2015  
Placement: Departmental  
Estimated Time: 30 minutes  
Continued Item: No  
If Yes, date from:  
Vote Required: Majority

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**TO:** Board of Supervisors  
**FROM:** Department Takashi Wada, MD, MPH, Director and Health Officer, *more for TW.*  
Director(s) Public Health Department  
Contact Info: Dan Reid, Assistant Deputy Director, 681-5173  
**SUBJECT:** Clinical Laboratory Services Operations Update

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**County Counsel Concurrence**

As to form: N/A

**Auditor-Controller Concurrence**

As to form: N/A

**Other Concurrence:** Risk Management

As to form: N/A

**Recommended Actions:**

That the Board of Supervisors:

- Receive a public presentation on the status of the Public Health Department Clinical Laboratory Services.
- Provide direction to the Director of the Public Health Department regarding ongoing clinical laboratory operations.
- 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 provide the Board a requested update on the Public Health Department (PHD) Clinical Laboratory operations and for the Board to provide direction to the Director of the Public Health Department for necessary changes to these operations. This Board Letter and Board presentation constitute this update.

PHD will provide a presentation to the Board with options for continuance of ongoing clinical laboratory operations, outsourcing of all clinical laboratory operations, and conducting further analysis to explore a partial outsourcing option. Direction from the Board is imperative at this point to address staffing stability, critical laboratory information system upgrades, and laboratory equipment and

financial impacts (e.g. interface licensure, etc.) that are imminent if operations are to continue. These options do not include the PHD Public Health Laboratory.

**Background:**

In March 2014, PHD brought to your Board an agreement and proposal to outsource its Clinical Laboratory operations through an agreement with the Pacific Diagnostic Laboratories. The Agreement for outsourcing laboratory operations was not approved at that time and subsequently PHD recommended continuing Clinical Laboratory operations into Fiscal Year 14/15. At that time your Board requested a future update on these operations and this Board Letter and presentation provide this update with options for future Clinical Laboratory operations.

**Interim Activities**

Since the Board Budget Workshops in April of 2014, the Public Health Department Administration has been meeting with the PHD Clinical Laboratory Supervisor weekly and with the remainder of the lab staff on a quarterly basis in order to get their input and explore options for reducing the existing laboratory budget deficit through increased revenue generation, cost reduction or other efficiencies. These activities have resulted in approximately \$225,000 in savings (see Table 1 below) from:

- Reduced reference laboratory costs through contract restructuring and aggressive billing for laboratory testing for those PHD patients granted Medi-Cal through the Affordable Care Act.
- Consolidated and centralized all in-house clinical laboratory testing at the existing Santa Barbara site.
- Hired three limited term laboratory assistants and implemented a temporary staffing agreement to replace staff retirements and resignations.

The review team also evaluated potential future efficiencies and estimated savings such as;

- Lease new equipment to replace older testing equipment (\$8,000 savings annually)
- Retain more testing in-house without increasing staffing (\$35,000 annually)
- Bill and collect STAT testing and transportation fees from self-pay patients (\$438 annually)
- Improve provider education regarding testing charges (\$5,000 annually)
- Sell/surplus unused equipment (\$33,000 one-time).

**Table 1 Comparison of Trends in Clinical Lab Costs (Previous Average and Ongoing)**

|  |                    |
|--|--------------------|
| Previous Average Annual Net Costs  | \$1,226,390        |
| <i>Projected Net Costs to Adequately Perform Clinical Laboratory Functions</i> | <i>\$1,070,067</i> |

**Board Direction Needed**

There are several issues concerning the ongoing operations of the Clinical Laboratory that require modifications within the next 1-4 months:

1. The current laboratory information system version is not compatible with changes in regulations and must be upgraded with new hardware to support this new version (deadline April 2015)
2. Temporary staffing agreement expiring (March 2015)
3. Limited term staff assignments reaching end date (May 2015)
4. Ongoing difficulties for PHD to recruit for Clinical Laboratory staffing due to uncertain future operations.

## **Ongoing Clinical Laboratory Operation Options**

### **1. Continue Clinical Laboratory Operations**

Current staffing levels are not adequate to carry on operations long-term. In addition, key pieces of laboratory equipment warrant replacement. Direction for this option would include recruiting for at least five (5) permanent laboratory staff to replace the limited term and temporary staffing, replacement of pieces of testing equipment with lease arrangements, and upgrading the laboratory information system including hardware purchase. Investing in laboratory interface improvements and staffing to managing these new interfaces would be needed. This option will allow PHD to continue to pursue alternatives and efficiencies to improve the cost effectiveness of the laboratory operations.

### **2. Outsource Clinical Laboratory Operations**

The Pacific Diagnostic Laboratory (PDL) has been working with PHD during this interim period to improve communications and operations for current reference laboratory testing under their existing agreement. PDL is willing to renegotiate the previous agreement proposal, presented to your Board in March 2014, to include a longer term with a longer lease guarantee for patient service center operations within the PHD Health Care Centers and offers of employment for potentially displaced Clinical Laboratory staff. Although this agreement would transfer 100% of clinical laboratory testing services to PDL, there are three other commercial clinical laboratories operating in Santa Barbara County and other hospital laboratories that offer similar services and local competition for these services should future agreement changes be necessary. A transition period of 90-120 days would be necessary to develop the bi-directional interface with the PHD Electronic Health Record and the PDL Laboratory Information System to process test requisitions and deliver test results to and from each data system.

### **3. Explore Options to Partial In House/ Partial Contract of Laboratory Functions – Transitional Approach**

This option would involve a review of the feasibility of utilizing both contract and in house staff to comprehensively provide for the Clinical Lab Function. There are several commercial laboratories that provide both management and line services. Further this option is currently employed in other health system settings. Under this approach, staff would analyze the feasibility of options for contracting including turning over daily operations of the Clinical Laboratory Services management to a third party vendor. Based on a preliminary analysis, this model could reduce County liability for licensure and equipment while allowing various methods for staffing. This option would likely require a public bid process for vendor selection. In addition an in depth analysis by Human Resources and County Counsel is necessary. This option, if determined to be feasible, would be a transitional approach to allow for attrition of staff and ultimate contracting of Clinical Laboratory services over an extended period.

The Benefits and Challenges of each option are discussed in Table II below:

**Table II Benefits and Challenges Associated with Clinical Laboratory Operations Options**

| Benefit  | Challenge            | Comment   | Estimated Cost Impacts  |
|--|----------------------|---|---|
| Option 1: Continue Clinical Laboratory Operations    |                      |   |   |
| Provider Relations                                   |                      | PHD lab staff are familiar with PHD providers   | \$1,070,067 annually  |
| Patient Relations                                    |                      | PHD lab staff are familiar with PHD patients  |   |
| Staffing   | Staffing             | Previously 15 Regular original positions (14 FTE). Currently 10 Regular positions (9.5 FTE), 4 limited term and combination of Extra Help and PDL contract labor to provide services. Previous loss of staffing and expertise. Current staffing model unsustainable.      |   |
| Equipment  | Equipment/Licensure  | New testing equipment and laboratory information system upgrade necessary. New equipment is more efficient. Ongoing licensure requirements.   |   |
| STAT Testing   | STAT Testing         | STAT Testing in Santa Barbara Health Care Center fastest possible due to co-location with lab. True STAT testing in North County achieved by sending patient to hospitals.  |   |
|  | Sliding Fee Schedule | FQHC Sliding Fee Schedule projected to reduce County revenue.   |   |
|  | Finance              | Ongoing annual budget shortfall of \$1.07M  |   |
| Patient Access                                       | Patient Access       | County lab staff collect specimens in three Health Care Centers (HCC) while HCC staff collect specimens in remaining 2 HCCs.  |   |
| Option 2: Outsourcing Clinical Laboratory Operations |                      |   |   |
|  | Provider Relations   | PDL staff does not currently have direct contact with PHD providers but will gain experience over time.   | Potential \$78,000 revenue annually for lease agreements<br>Costs of \$68,000 for 0.5 FTE RN for interface management |
|  | Patient Relations    | PDL staff does not currently have direct contact with PHD patients but will gain experience over time or is retained if existing County staff hired by these services with PDL.   |   |
| Staffing   | Staffing             | Unless staff accepted employment with PDL, 10 Regular staff positions would face layoffs. PHD would work with staff to explore any potential re-assignments within County if eligible but due to narrow technical nature of staff and job class, this may be challenging. |   |
| Equipment  |                      | No equipment liability for County and new interfaces with PDL information system would be developed.  |   |
| STAT Testing   | STAT Testing         | Except for Santa Barbara Health Care Center, STAT testing turnaround will improve across County due to better courier services  |   |
| Sliding Fee Scale                                    |                      | PDL offering better Sliding Fee Scale than PHD for Self-Pay patients  |   |
| Finance  |                      | PDL will manage all 3 <sup>rd</sup> Party Billing now done by PHD.  |   |
| Equipment/Licensure                                  |                      | Reduces County liability and cost for ongoing equipment replacement/leasing and maintenance of clinic licensure   |   |
| Patient Access                                       |                      | PDL to provide Patient Service Centers (PSC) in existing locations, provide mobile phlebotomy half-time at 2 additional Health Care Centers and more than 10 additional PSCs throughout Santa Barbara County.   |   |

| <b>Option 3: Explore Options to Partial In House/ Partial Contract of Laboratory Functions</b> |                      |   |   |
|--|----------------------|---|---|
| Provider Relations   | Provider Relations   | Mixture of County and vendor staffing likely which would minimize provider relation impacts.  | 10-15% reduction of annual costs to (\$909,557 - \$963,060) |
| Patient Relations  | Patient Relations    | Mixture of County and vendor staffing likely which would minimize patient relation impacts.   |   |
| Staffing   | Staffing             | Staffing mix to be explored. With vendor resources combined with County, less potential service disruption or staff layoffs. Attrition possible.  |   |
| Equipment\Licensure  |                      | Depending upon vendor and agreement, County would likely divest itself of equipment and licensure (liability)   |   |
| STAT Testing   | STAT Testing         | Dependent upon vendor selected. With additional resources STAT testing should be maintained at current levels and may improve.  |   |
| Sliding Fee Schedule   | Sliding Fee Schedule | Would be included in negotiations and would equal or reduce costs for self-pay patients.  |   |
| Finance  |                      | Full costs uncertain but research indicates potential 10-15% savings.   |   |
| Patient Access   | Patient Access       | Existing locations maintained but would need to include into transition model to maintain Patient Service Centers (PSCs). Vendor likely to have other PSCs in the County to increase patient access.<br>(Longer term transition of functions, staffing and service) |   |

**Service Level Impacts:**

Each option has the potential to impact service levels. Continuing ongoing operations will require continuing to use temporary staffing until permanent staffing can be recruited and trained. Outsourcing operations should have some temporary reduction in efficiency as PDL staff gains experience with PHD providers and patients. A Partial Contract model could have reductions in efficiencies during the initial 90-120 days as contract staff gain expertise working with County patients and necessary information systems and interface changes are put into effect.

The previous Request for Proposal (RFP) process occurred more than one year ago and although the Pacific Diagnostic Laboratories is willing to honor their original submittal, consideration of a Partial In House/ Partial Contract of Laboratory Functions (Option 3) would require a separate public bid process as the original RFP did not allow for this type of model.

**Fiscal and Facilities Impacts:**

Budgeted: Yes

**Table III Estimated Annual Costs for Options for Clinical Laboratory Operations**

| Option   | Estimated Annual Costs | Comments  |
|----------|------------------------|---|
| Option 1 | \$1,070,067            | Stabilize and sustain ongoing operations  |
| Option 2 | \$68,000               | Staff cost for interface management, should be offset by revenue generated from lease agreements for patient service center locations in PHD clinics  |
| Option 3 | \$909,565-\$963,060    | Represents a potential 10-15% (based upon national averages) reduction in annual costs to operate the existing clinical laboratory operations. May be offset if County allows for vendor to provide services at County locations for their private patients. Full range of options must be explored for definitive savings. |

### **#1 Ongoing Operations:**

\$1,070,067 deficit annually which would include the elimination of temporary staffing agreements and limited term positions in exchange for regular County staff positions, benefits, etc.

### **#2 Outsourcing Operations**

The current proposal for outsourcing with PDL includes a service agreement and lease agreement for use of County space for Patient Service Centers (PSCs). This option would require a County staff member (0.5 FTE REG Registered Nurse at \$68,000 annually) to manage the PHD elements of an interface between the PHD Electronic Health Record and the PDL Laboratory Information System. However, over time the lease agreements for County space should generate \$78,000 annually to offset these costs.

### **#3 Explore Options to Partial In House/ Partial Contract of Laboratory Functions**

This model is the least understood at this time. A public bid process and in depth Human Resource and legal review is necessary to full ascertain the range of feasible options around services, lab staffing, etc. and to define all parameters and cost. However, national averages, reported by hospitals utilizing this approach, have indicated such a model typically reduces overall costs by 10% to 15%. Therefore ongoing costs exceeding revenues could be \$909,567 to \$963,060 annually. In other similar situations it is conceivable that the vendor would be interested in utilizing the current County location for other client services which could generate revenue to offset some of these County costs.

### **Alternative Needs for Funding**

If clinical laboratory operations were fully or partially outsourced, the Public Health Department has identified the following activities and areas where the funding currently supporting the PHD Clinical Laboratory operations could be re-allocated:

- Enhanced support of PHD Electronic Health Record (\$300,000 to \$500,000 annually).
- Changing compliance regulations, auditing and training support (approximately \$80,000 annually).
- Health Care Center infection control enhancements (approximately \$100,000 annually).
- Increases in communicable diseases within the community triggering need for expanded leadership role for County (PHD), investigative staffing resources, screening and preparation (e.g., TB, Ebola, Pertussis) facilities and treatment (costs currently unknown).
- Patient Centered Medical Home model of care support for continuum of care (\$300,000 annually).
- Inclusion in strategic reserves for future uses such as facility maintenance or uncertainties regarding future implementation of the Affordable Care Act.

**Staffing Impacts:**

Clinical laboratory testing is currently performed at the Santa Barbara Health Care Center and laboratory draw stations with specimen preliminary preparation is provided at the Lompoc and Santa Maria Health Care Centers. Health Care Center staff collects and prepare specimens at the Franklin and Carpinteria Health Care Centers and the three Satellite Clinic locations. If clinical laboratory operations were directed to be outsourced or partially contracted, the following staff positions (Table IV below) could be affected. The Outsourcing and Partial Contract models are often negotiated to offer existing staff vendor positions. The Partial Contract Model could allow a longer transition, through staff attrition, to outsource to the vendor laboratory all laboratory operations over time.

**Table IV Current Clinical Laboratory Staffing**

| Positions                           | FTE | Job Class | Title   |
|-------------------------------------|-----|-----------|---|
| 1                                   | 1   | 3935      | Health Services Laboratory Supervisor         |
| 3                                   | 3   | 1748      | Clinical Laboratory Scientist Sr.             |
| 4                                   | 3.5 | 4540      | Laboratory Assistant                          |
| 1                                   | 1   | 7009      | Financial Office Professional II              |
| Temporary and Limited Term Staffing |     |           |   |
| 1                                   | 1   | 1736      | Clinical Laboratory Scientist (Limited Term)* |
| 3                                   | 3   | 4540      | Laboratory Asst (Limited Term)                |
| 1                                   | 1   | 4540      | Laboratory Asst (Limited Term-Vacant)         |

\* Currently vacant but candidate has accepted offer with February 2, 2015 start date.

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. Existing temporary and limited term staffing are in place due to previous staff retirements and resignations.

For any staff remaining at the time of the final transition, PDL has made a verbal commitment to provide employment offers, either with PDL or Cottage Hospital, to all remaining County staff that meet their eligibility requirements. In addition, remaining staff will be notified as new opportunities arise in the PHD or other County departments through the transition period. The Partial Contract model could allow other alternatives to existing staffing to transition to the vendor or over time choose retirement or other opportunities in the private sector as they become available. There are current openings at Cottage Hospital/Pacific Diagnostic Laboratories and other laboratory operations in the County have previously expressed interest in County Clinical Laboratory staff due to their professionalism and expertise.

**Special Instructions:** N/A

**Attachments:** N/A

**Authored by:**

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