HEALTH CARE PROVISIONS OF THE CPMC DEVELOPMENT AGREEMENT

Presented to the Land Use Committee
San Francisco Board of Supervisors
June 25, 2012

Board of Supervisors Hearings

LAND USE COMMITTEE	
Friday, June 15th 10am	Project & Development Agreement Overview Job Creation & Retention
Monday, June 25th 3pm (Today)	Healthcare
Monday, July 9th 1pm	Housing Transportation & Public Realm Health Service System Controller & Budget Analyst Report
Monday, July 16th 1pm	Questions, etc.
FULL BOARD	
Tuesday, July 17th	EIR Appeal & First Reading
Tuesday, July 24th	Second Reading

Changes to DA in Board File

Changes to DA Board File 4/26/12 to 6/20/12	
Development Agreement	• Technical cleanup (no substantive changes)
Exhibit F (Healthcare)	• Program goals of Innovation Fund may be modified with approval of DPH Director and CPMC • Technical cleanup • Attachment 1 added (Innovation Fund grant agreement)
Exhibit G (Housing)	• Downpayment Assistance Loan Fund manual added
Exhibit K (Transportation)	• Technical cleanup

CPMC Rebuild: Health System Importance

- **Built as proposed – 555 beds at Cathedral Hill and 80 beds at St. Luke's – these hospitals will help to meet the health care needs of San Franciscans.**
- **Those needs include care for low-income, uninsured, and publicly-insured San Franciscans.**
- **San Francisco hospitals must be able to withstand a severe earthquake and be available in a disaster.**

Background: Health Commission History with CPMC

- **Health Commission has had a long history with CPMC**
- **St. Luke's Blue Ribbon Panel, established March 2008, to advise on planning efforts for CPMC's St. Luke's campus**
- **Among other things, the Panel recommended:**
  - New acute care hospital should be rebuilt on the St. Luke's campus
  - Size of the hospital should be appropriate to the planned service mix
  - Service mix should include Centers of Excellence in Community and Senior Health
- **In October 2008, the Health Commission passed a resolution endorsing the Panel's recommendations**
- **In 2009 and 2010, they passed two subsequent resolutions aimed at increasing CPMC's care to vulnerable populations**
- **CPMC is continuing to meet its commitments to the Health Commission**
- **Health Commission resolutions created the framework for the City's position on the CPMC/St. Luke's rebuild**

CPMC Development Agreement: Three Key Priorities

1. **Ensure a secure future for St. Luke's**

2. **Ensure access to CPMC for Medi-Cal and charity care patients consistent with the changing healthcare environment**

3. **Focus CPMC's community benefits on San Francisco's most vulnerable populations**

Priority 1: A Secure Future for St. Luke's

20-year St. Luke's Operating Commitment

CPMC must construct a new hospital on the St. Luke's Campus and operate the new hospital for 20 years

- Simultaneous construction for new hospitals
- CPMC may not open the new Cathedral Hill Hospital until it opens the new St. Luke's Hospital

20-year St. Luke's Operating Commitment

- **The new St. Luke's Hospital must be licensed as a general acute care hospital with comprehensive emergency medical services**
  - 50% greater Emergency Room capacity
- **Center of Excellence in Community Health**
  - Access for 800 patients annually to a primary care medical home to support self-management of chronic illness
  - Liquidated damages: $2 million for each year in default
- **Center of Excellence in Senior Health**
  - Care for 600 hospitalized seniors age 70+ annually to prevent or decrease the severity of illness and increase or maintain function to maximize patient's independence at discharge
  - Liquidated Damages: $750,000 for each year in default

20-year St. Luke's Operating Commitment

- **Operating Commitment linked to Operating Margin**
  - "Operating margin" is a measure of financial health, reflecting the proportion of revenue remaining after paying costs, such as salaries, supplies, and leases
  - The test applies to CPMC's entire system in San Francisco, not St. Luke's alone
  - **DA requires CPMC to operate new St. Luke's Hospital for 20 years, unless CPMC's system-wide operating margin falls below 1% for two consecutive fiscal years**

20-year St. Luke's Operating Commitment

- **If CPMC closes St. Luke's early without falling below 1% Operating Margin threshold:**
  - CPMC is in default and the City will receive liquidated damages
- **If CPMC falls below 1% threshold at the end of a fiscal year:**
  - CPMC must notify the City
  - In the following year, CPMC must meet and confer in good faith to consider any proposed adjustment, elimination, closing, or transfer of St. Luke's services
- **If CPMC falls below 1% threshold at the end of the next fiscal year:**
  - CPMC may close St. Luke's
  - If the City disputes the closure, the City may commence arbitration
  - If arbiter concludes CPMC did not fall below the threshold and CPMC closed St. Luke's, CPMC is in default and the City will receive liquidated damages
- **Liquidated Damages**
  - $30 million (adjusted annually for medical inflation) for each year of the 20-year operating commitment that CPMC is in default

Updated information on the 20-year Operating Commitment will be provided at the end of this presentation

Integration of St. Luke's into the CPMC System

- **New St. Luke's will be an 80-bed community hospital, integrated into CPMC's hospital system**
  - National model – several community hospitals connected to single, specialty hospital
- **Specialty care for St. Luke's patients through CPMC system**
  - St. Luke's patients who need more specialized care will have access to Cathedral Hill (3 miles from St. Luke's) or the Davies Campus (2 miles from St. Luke's), as needed
- **Maintains St. Luke's as a widely accessible community resource**
- **Integration of St. Luke's into CPMC system addresses concerns of viability of St. Luke's alone**

New Medical Office Building at St. Luke's

CPMC must begin the process for a new medical office building next to St. Luke's within four years of completion of the new St. Luke's Hospital

- CPMC must submit a proposal for the St. Luke's Medical Office Building (MOB) to the Sutter West Bay Board within 90 days of meeting the following conditions:
  - Existing Monteagle MOB is at 90% occupancy for a one year;
  - Pre-leasing commitments for new MOB at 75%; and
  - Operating rooms at St. Luke's Hospital are at 80% capacity for one year
- If conditions are not satisfied, or if CPMC does not commit to build the MOB within 4 years of opening St. Luke's Hospital, then the City will have the right to lease the property for a nominal amount and work with a developer to build the MOB

Priority 2: Access for Medi-Cal and Charity Care Patients Consistent with Changing Health Care Environment

Background: Health Reform

- **Health Reform enacted March 2010**
- **Multi-pronged approach to health reform, including**
  - Individual mandate
  - Increased eligibility for Medicaid for low-income adults
  - Online health insurance marketplaces
  - Health insurance industry reforms
- **Major reforms go into effect January 2014**
- **92% of US residents will have insurance by 2016**

Background: Health Reform in San Francisco

- **According to recent survey data, approximately 117,000 San Franciscans under age 64 were uninsured for all or part of 2009**
  - ~80,000 (68%) of the uninsured will be eligible for health insurance (public or private)
  - ~30,000 of those will enroll in Medicaid (called Medi-Cal in California)
  - This will increase current Medi-Cal enrollment in San Francisco by ~23%
- **Certain provisions of the Development Agreement were specifically designed to help prepare San Francisco for the Medicaid eligibility expansion in Health Reform**

Background: "Medi-Cal Managed Care 101"

- **New Medi-Cal eligibles will enroll in Medi-Cal managed care**
- **Beneficiaries can choose between two health plans**
  - San Francisco Health Plan
  - Anthem Blue Cross
- **Once enrolled in a plan, patients choose a provider network**
  - Primary care provider (community clinic, physician group) + specialty care network + hospital partner
  - Providers assume ongoing responsibility to provide all of the covered health care services the member needs
- **San Francisco will need a sufficient supply of Medi-Cal managed care providers to meet the needs of new Medi-Cal eligibles**

Baseline Commitment

CPMC must continue to spend at least $86 million per year (adjusted annually by medical inflation) for 10 years on Care for Vulnerable Populations

- Maintains approximate current level of care for low-income San Franciscans while other DA provisions require additional obligations from CPMC to prepare for Health Reform
- All other healthcare obligations build on this Baseline Commitment

Baseline Commitment

- **Care for Vulnerable Populations includes:**
  1. Charity Care
     - medical services provided to low-income patients, including Healthy San Francisco participants, without the expectation of reimbursement
  2. Medi-Cal Shortfall
     - difference between costs for serving Medi-Cal patients and Medi-Cal reimbursement
  3. Other Services to the Poor and Underserved
     - health programs through community partnerships, grants and sponsorships of CBOs, etc.

Baseline Commitment

- **Baseline Commitment set at average of prior 3 years:**

2008	2009	2010
$ 77M	$ 80.3M	$ 101M

- **Adjusted annually by medical inflation**
  - 2011 medical inflation = 3%
  - Average of last 5 years = 3.5%
- **Assuming annual inflation of 3%, minimum baseline commitment will be $112 million in Year 10**

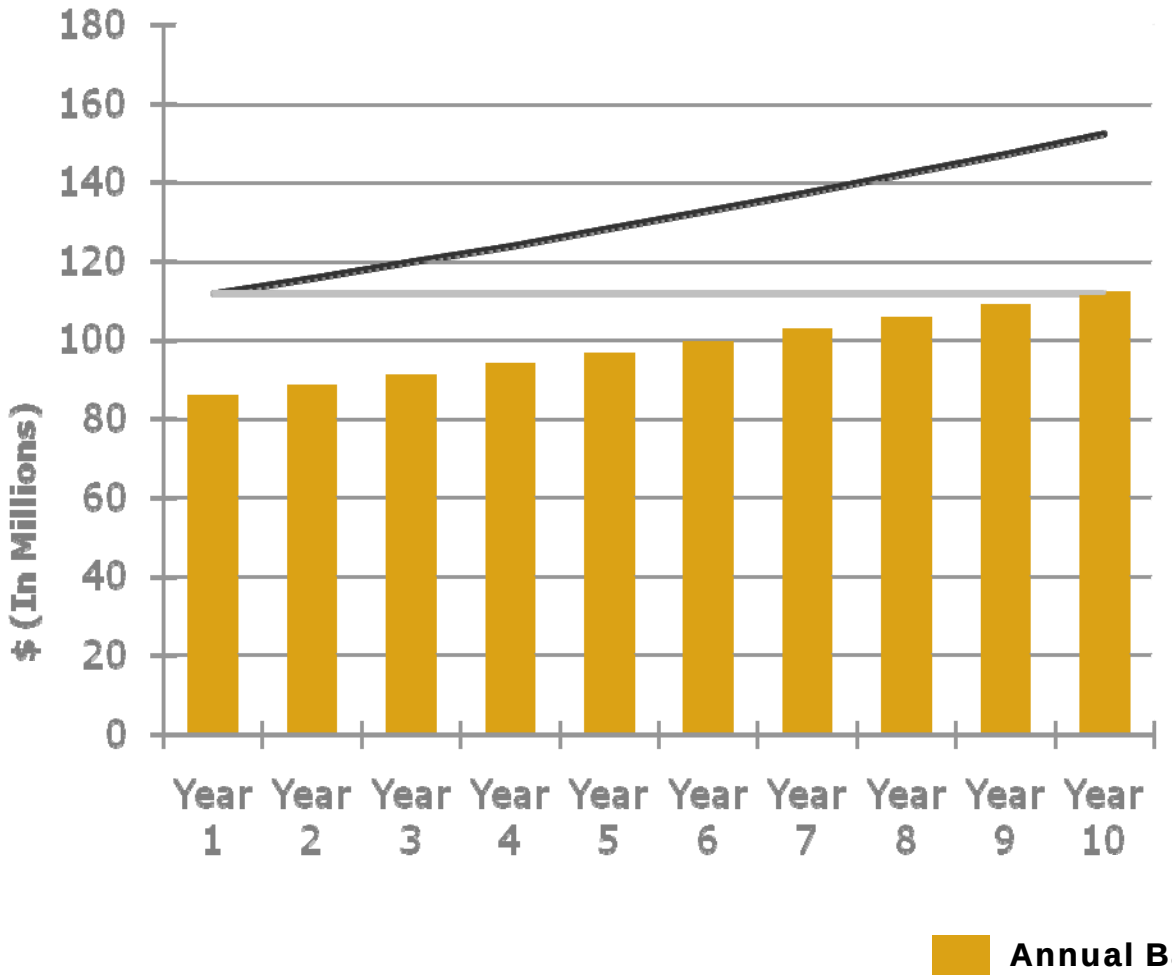
Baseline Commitment

- **CPMC will be required to spend no more than 40% of EBITDA for this provision each year**
  - "EBITDA" is CPMC's net income after operating expenses, but before interest, taxes, depreciation and amortization.
- **Liquidated Damages**
  - 150% of the required Baseline Commitment that is required but not provided by CPMC in any fiscal year

Baseline Commitment

- **$20 Million Backstop Commitment**
- **For use if $86 million Baseline Commitment as adjusted for medical inflation exceeds 40% of EBITDA**

Baseline Commitment

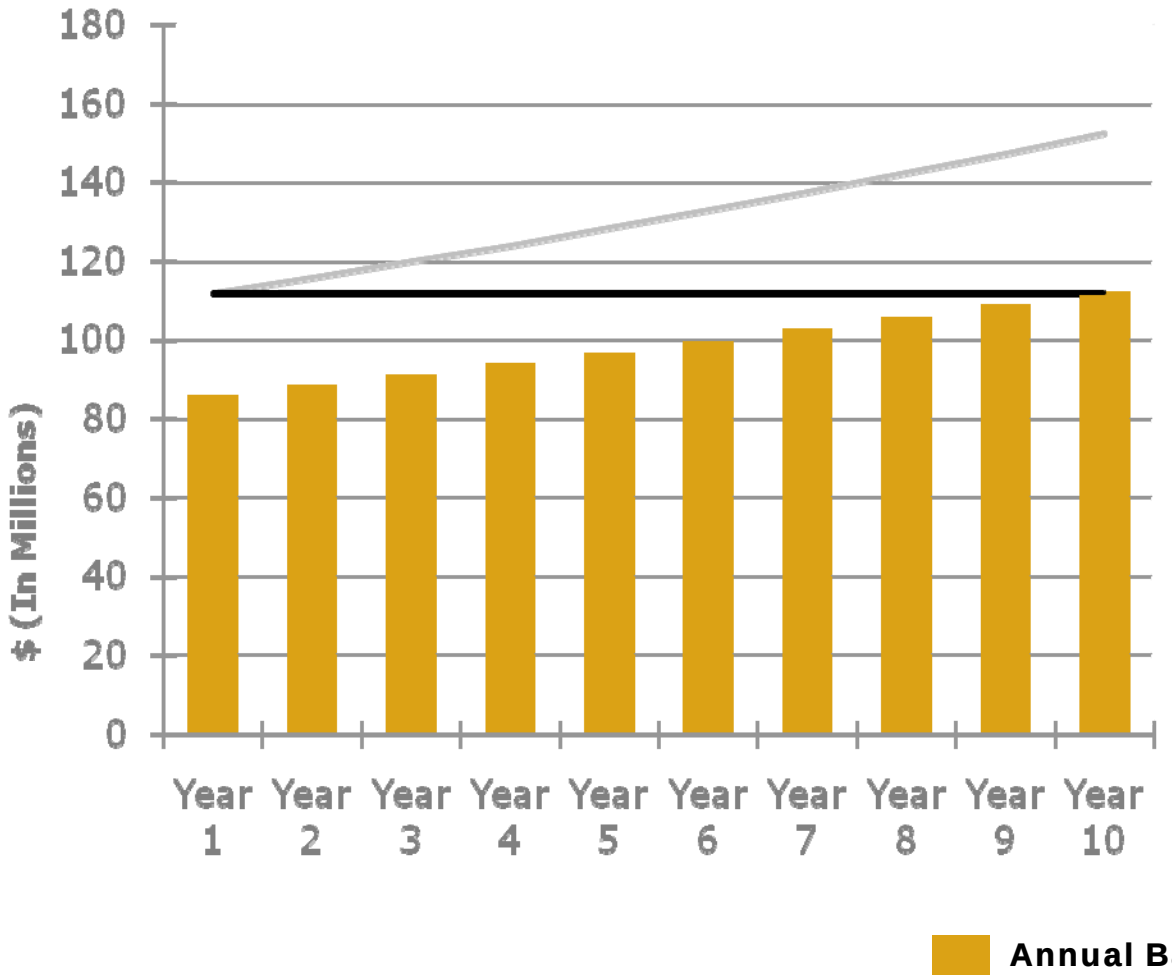


EBITDA Grows @ Inflation

If CPMC's EBITDA increases at or above Medical Inflation (3%) annually for the 10 year term :

- CPMC baseline commitment would total **$ 985 million**
- 40% cap would **never** come into effect
- $20 Million Backstop Fund would **not be used**

Baseline Commitment



EBITDA Grows @ 0%

If CPMC's EBITDA does not increase for the entire 10 year term:

- CPMC baseline commitment would total **$ 985 million**
- 40% cap would come into effect in **year 10**
- **$ 200,000** of the $20 Million Backstop Fund would be used

10,000 New Medi-Cal Beneficiaries

Provide hospital care for 10,000 new Medi-Cal Managed Care beneficiaries for a period of 10 years

- **CPMC must be the hospital partner, primarily in the new Cathedral Hill Hospital, for an additional 10,000 Medi-Cal Managed Care beneficiaries**
  - ~ 1/3rd of all new Medi-Cal beneficiaries expected in San Francisco under federal Health Reform
  - Provides for increased and meaningful participation of CPMC in Medi-Cal Managed Care

10,000 New Medi-Cal Beneficiaries

- **"Hospital partner" means assuming responsibility for all necessary hospital care for 10,000 beneficiaries**
- **CPMC will contract with at least two primary care community providers**
  - one community provider will have a provider base in the Tenderloin and will care for at least 1,500 of the 10,000 new enrollees
- **Enrollment**
  - ~1,500 of the new enrollees must be seniors or persons with disabilities
  - 1,500 beneficiaries enrolled within one year of effective date
  - 8,500 additional beneficiaries enrolled by 12/31/15

10,000 New Medi-Cal Beneficiaries

- **Maximum Medi-Cal Shortfall**
  - CPMC will expend up to $9.5 million per year (adjusted annually by medical inflation) to satisfy this commitment
  - Costs are expected to fall below $9.5 million based upon conservative assumptions:
    - Historic utilization levels of various populations
    - Flat Medi-Cal reimbursement
    - CPMC costs increasing at 3.5%
    - Inflation increasing at 3%
- **Liquidated Damages**
  - 150% of the average Medi-Cal shortfall for each beneficiary that is required to be enrolled but is not enrolled

10,000 New Medi-Cal Beneficiaries

- **$20 Million Backstop Commitment**
- **For use if $86 million Baseline Commitment as adjusted for medical inflation exceeds 40% of EBITDA**
- **Also for use if unreimbursed Medi-Cal costs for 10,000 new Medi-Cal beneficiaries is greater than the Maximum Medi-Cal Shortfall of $9.5 million adjusted for medical inflation**

Skilled Nursing Facility Beds

CPMC will continue to provide and maintain 100 skilled nursing facility beds in San Francisco for a period of 10 years

- **100 skilled nursing facility (SNF) beds will be available to uninsured, Medi-Cal, and Medicare patients throughout the CPMC system**
  - 38 beds will remain at Davies
  - 62 SNF beds must be new and not from existing beds in use
- **Liquidated damages**
  - One-time cost of $600,000 for each new SNF bed that was required but not created; plus
  - For each year of the contract that fewer than 100 SNF beds are available, the annual Medi-Cal shortfall for each SNF bed that was required but not created.

Priority 3: Focus CPMC's Community Benefits on Vulnerable Populations

Community Care Innovation Fund

Endow a new *Community Care Innovation Fund* to support community clinics, as well as other health and social service providers

- **$20 million Community Care Innovation Fund**
- **Will enhance community clinic readiness for:**
  - Health Reform
  - Medi-Cal Managed Care
  - a Tenderloin partnership for CPMC's new Medi-Cal beneficiaries

Community Care Innovation Fund

- **Program Goals and Allocation**
  - Support and improve capacity of community clinics – 75%
    - Including developing capacity of one or more Tenderloin providers to participate in Medi-Cal Managed Care
  - Infrastructure support for community-based health, human service, and behavioral health service providers, with a specific focus on low-income underserved neighborhoods – 25%

Community Care Innovation Fund

- **Timing of Payments into Innovation Fund**
  - $3.5 million within 30 days of effective date
  - $16.5 million within 30 days of date approvals finally granted
- **Fund will be managed by the San Francisco Foundation and jointly controlled by representatives of the City, the Foundation and CPMC.**

Innovation Fund: Psychiatric Care

- **Draft DA amended at Planning Commission to make care for mental health needs specifically eligible for support from Innovation Fund through partnerships with CBOs**

– Envisioned partnership:

  - Leverages a community-based program designed to support the City's hospital emergency rooms
  - Will offer 24/7 urgent care to provide crisis intervention, medication support, psychosocial counseling and connections to other needed services.
    - *Ex. Dore Urgent Care Center*

– Less restrictive, more appropriate, and more cost effective than inpatient care

Background: Psychiatric Care in San Francisco

- **SFGH Psychiatric Emergency Services (PES)**
  - Provided only at SFGH
  - Entry often through law enforcement (5150)
  - When SFGH on condition red (at capacity), patients taken to closest hospital ER
  - 30% of PES patients are admitted to acute psychiatry
  - *Majority waiting to stabilize or for transfer to another type of treatment program*
- **SFGH Acute Inpatient Psychiatry**
  - Of the patients in SFGH acute psychiatric beds last week, fewer than 30% required acute care
  - *Majority waiting to stabilize or for transfer to another type of treatment program*
- **Other Hospitals**
  - Acute inpatient psychiatry provided at several SF hospitals, including CPMC's Pacific Campus
  - Receive psychiatric emergency patients in the emergency room when PES is on condition red
  - Receive other behavioral health patients in the emergency room
  - *Majority waiting to stabilize or for transfer to another type of treatment program*
- **Conclusion**
  - The system needs a place for patients to stabilize or wait for transfer to another treatment program at the lowest level of care

Additional Provisions

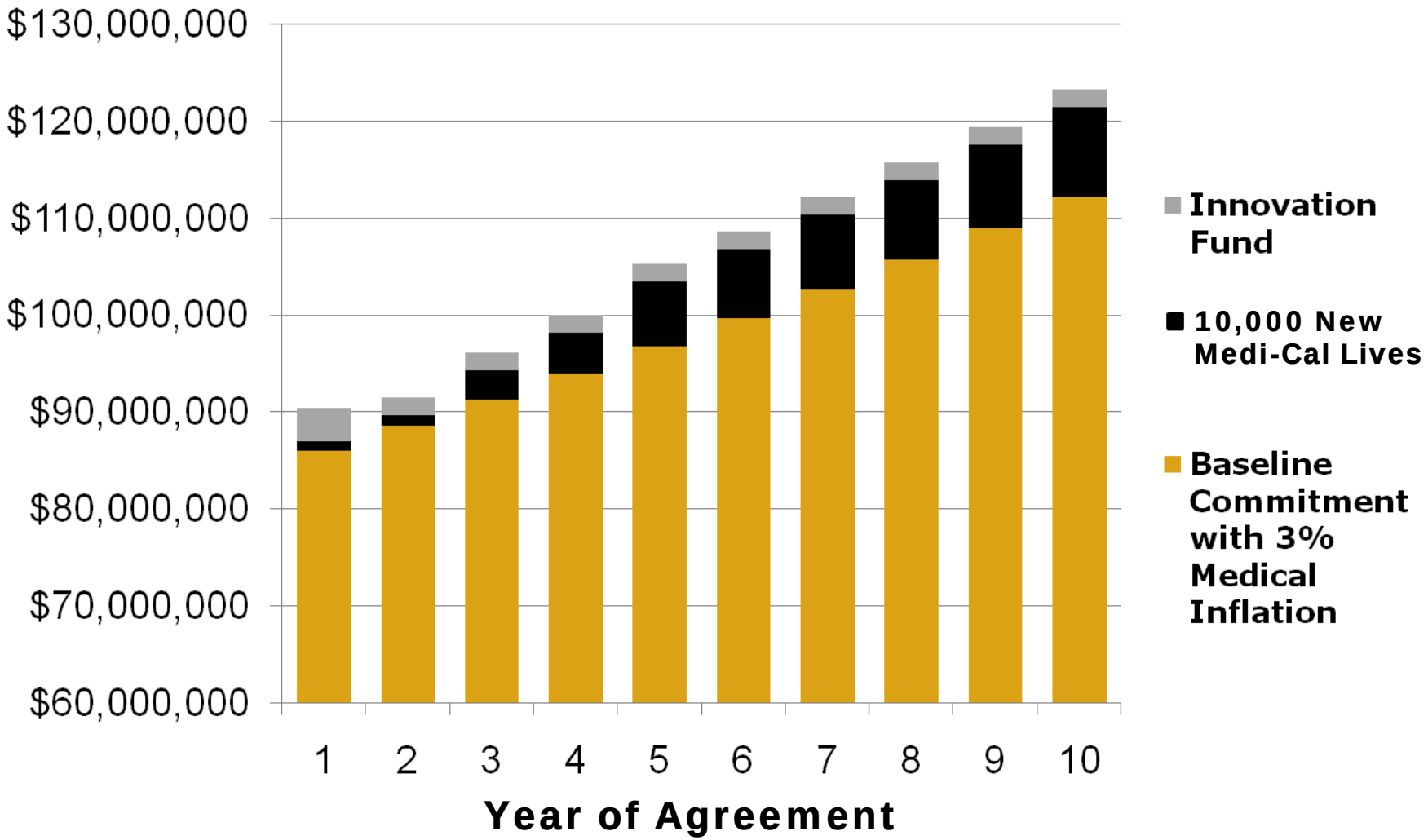
- **CPMC will**
  - Work with DPH and other hospitals to develop specific proposals for providing sub-acute care services in San Francisco
  - Continue efforts at the clinical integration of medical staffs at all its campuses
  - Continue to actively participate in San Francisco's "Community Benefits Partnership"
  - Continue its partnership with Chinese Hospital to provide pediatric, obstetric, and certain tertiary services consistent with existing services agreements
  - Deliver at all campuses culturally and linguistically appropriate services that are representative of San Francisco's diverse population

Background: Supreme Court Decision on Health Reform

- **Supreme Court ruling expected this month**
  - Court may strike down or uphold all or portions of reform
  - DA anticipates large Medicaid expansion
  - Medicaid provisions twice upheld in lower courts
  - Overturn of Medicaid provisions have far-reaching consequences beyond health care
  - Regardless of court's ruling California has stated its intent to move forward on reform
- **DA provides for renegotiation to maintain the "benefit of the bargain" should changes in federal or State law adversely limit agreed upon public benefits**

Summary

Cumulative 10-year Commitment to Vulnerable Populations



Summary of Liquidated Damages

DA Provision	Liquidated Damages
20-year St. Luke's Operating Commitment	$30 million (adjusted annually for medical inflation) for each year of the 20-year operating commitment that CPMC is in default
Baseline Commitment	150% of the Baseline Shortfall (the Baseline Commitment that is required but not provided by CPMC) in any fiscal year
10,000 New Medi-Cal Beneficiaries	150% of the Medi-Cal Shortfall (the average unreimbursed cost per Medi-Cal enrollee) for each beneficiary that is required to be enrolled but is not enrolled
100 Skilled Nursing Facility Beds	▪ One-time cost of $600,000 for each new SNF bed that was required but not created; plus ▪ For each year of the contract that fewer than 100 SNF beds are available, the annual Medi-Cal shortfall for each SNF bed that was required but not created.
Center of Excellence in Community Health	$2 million for each year in default
Center of Excellence in Senior Health	$750,000 for each year in default

Health Care Services Master Plan

Health Care Services Master Plan

- **Health Care Services Master Plan (HCSMP) Ordinance (no. 300-10)**
- **Requires development of a HCSMP for San Francisco to be used as a guide for land use decisions for health-care related projects**
- **Estimated Timeline:**

Health Care Services Master Plan

- **Preliminary Findings**
  - San Francisco has many health care resources
  - As measured by distance or travel time to a hospital or primary care provider, San Francisco has fair to good access compared to other communities
  - Availability of health care resources does not necessarily equate to access to health care services, in particular for San Francisco's low-income populations
- **Preliminary Recommendations**
  - Land use projects that address the needs of San Francisco's most vulnerable populations should be prioritized
- **Though the report is not yet complete, preliminary information indicates this project with the proposed Development Agreement would be consistent with the Master Plan**

Priority 1 – A Secure Future for St. Luke's

20-YEAR OPERATING COMMITMENT - *UPDATE*