CITYGATE ASSOCIATES, LLC
PUBLIC SAFETY SERVICES

Independent *Economic* Review of the Ambulance Transport RFP Result

Board of Supervisors Briefing

County of Contra Costa

Presented on July 21, 2015

CITYGATE ASSOCIATES, LLC

THE SEAL OF CONTRA COSTA COUNTY CALIFORNIA

What This Review Contains

- The background on current ambulance economics
- The structure of the Alliance business partnership
- Operational measures, since they drive costs (ambulance staffing)
- The reasonableness of the Alliance revenue estimations
- Citygate's Opinions, Fiscal Risk Control Strategies, and Implementation Recommendations, should the Alliance approach be approved by the Board of Supervisors

Citygate's Capstone Opinions

- It is undisputed that 9-1-1 ambulance system revenues are falling nationally to the point where some systems will no longer be able to operate without a public subsidy.
- If there are not enough health care system payments to cover the costs of ambulance care, the taxpayers in every community are the fallback resource to fund 9-1-1 ambulance services.

Risk Shift to the *Fire District* Taxpayer

- The Alliance proposal shifts the ultimate economic responsibility from the ambulance contractor (which will be guaranteed a fixed payment) to the taxpayers of the Contra Costa County Fire Protection District (CCCFPD).
- Even if this is an acceptable policy alternative, the CCCFPD is smaller in service area than the area covered by the ambulance contract.
- Consequently, the taxpayers in some non-CCCFPD service areas would have less exposure to ambulance fiscal risk in the case of system default.

Alliance Proposal Economics

- Costs and estimated revenues are conservative and consistent with the system demand for ambulances.
- As such, the Alliance Plan A offers similar services to the current system in a positively balanced economic model.
- To the Alliance's credit, its proposed Plans A and B are not reliant on using new revenue sources, such as Ground Emergency Medical Transport (GEMT) revenues on some types of Medi-Cal transports.

Alliance Proposal Economics (cont.)

- The Alliance's approach in projecting Average Patient Charges (APC) and expected net collections by payer type are both conservative and prudent.
- While this approach is reasonable, we believe that continued deterioration of net collections due to changes in payer mix remains one of the largest risks going forward.
- To shield against this, Citygate has made several contractual implementation recommendations to separate and ensure, to the degree possible, the economic solvency *and sustainability* of the system.

Expense to Revenue Comparisons

Economic Assumptions

- The Alliance projected declines in *net* collections from the recent past of 27.1% to 24.6% and a flat incident demand.

	PLAN A			PLAN B		
Description	Year 1 (2016)	Year 2 (2017)	Year 3 (2018)	Year 1 (2016)	Year 2 (2017)	Year 3 (2018)
Revenue	$39,184,619	$40,707,971	$42,293,630	$39,184,619	$40,707,971	$42,293,630
Expenses	$37,211,143	$38,327,477	$39,477,301	$36,741,220	$37,843,457	$38,978,760
Gain	$1,973,476	$2,380,494	$2,816,329	$2,443,399	$2,864,514	$3,314,870

Deployment Plan A vs. B

- The only major *cost* difference between the two plans is eight field employees and a small reduction in operating costs.
- There are no overhead personnel expense reductions.
- There is an addition in Plan B for a required annual payment of $750,000 to the County EMS Agency for EMS system enhancement uses.

Plan B Difference	Amount
Plan B Cost Reductions	~ ($1,220,000)
Plan B EMS Agency Fee	~ $750,000
Plan B Net Reductions	~ ($470,000)

The Fiscal Health of AMR

- The AMR profit component is segregated as a separate line item in the Alliance Expense Budget, providing a level of transparency.
- AMR allocated a reasonable 10% of total expenses to cover non-field Depreciation and Amortization, Interest, Taxes, thus leaving a reasonable level of Net Profit for AMR in the range of 3 to 6%.
- We note that AMR national liquidity ratios stayed very consistent between 2013 and 2014, and the profitability ratios improved from 2013 to 2014.

The Fiscal Health the CCCFPD

- Given the CCCFPD's current reserves and inclusion in the overall County tax distribution system, the CCCFPD has the funds to begin monthly payments to AMR for several months and fund other start-up costs, until new ambulance billing revenue catches up to expenditures.
- At that point, the CCCFPD must first repay its cash advances and then build the recommended ambulance enterprise reserves before it can true up revenue-to-ambulance rates or system enhancements.

Risk Control Strategies

Key Risk Control Strategies

1. Establish Alliance contracts as an Enterprise Operation, similar to other local governmental fee-for-service programs, such as water and sewer operations.
2. Establish a significant reserve fund of 6 months of revenues plus a capital equipment replacement reserve; also establish best practice financial policies.
3. Eventually calibrate transport fees to true costs through audits of expenses and adherence to stipulated contract provisions.

Key Risk Control Strategies (cont.)

4. When revenues exceed needed reserves, consider lowering transport fees, not cross-subsidizing non-Alliance CCCFPD or County EMS Agency operations.
5. Establish a County Board of Supervisors and CCCFPD "Compassionate" set of billing policies for CCCFPD-managed first responder and ambulance revenue collection to include a write-down and write-off policy.

Implementation Recommendations

Recommendations Should the Alliance Proposal Move Forward

1. Identify the fiscal relationship between the parties, their separate fiscal exposure for each other's decisions (such as staffing levels), and start-up capital costs.
2. Board policy should require that ambulance loss risk only be transferred to the taxpayer for unforeseen, catastrophic losses, as would be the case in the current system if the ambulance contractor were to fail.
3. Fine the contractor only for material breach, not small, per-minute fines.

Recommendations Should the Alliance Proposal Move Forward (cont.)

4. Rather than fine for small response time misses, require that the deployment plan account for equitable response time coverage for similar land use and population densities. Then if the Alliance delivers the required response time performance, only gross neglect to deploy or respond should trigger a fine and/or lead to default.
5. Define in the contract between the County EMS Agency and the CCCFPD a clear delineation of roles, responsibilities, and authorities as it pertains to operational authority and regulatory oversight.

Recommendations Should the Alliance Proposal Move Forward (cont.)

6. Require the CCCFPD to report to the Board of Supervisors quarterly on response times, payer mix, and a rolling revenue-to-date report and near-term revenue-to-expense forecast.
7. Annually require an independent audit of the revenues to expenses and the viability going forward of the contract terms. Once ambulance reimbursements settle under health care reform, the formal audits could possibly move to two-year cycles.

Questions?