

County of Santa Clara
Santa Clara Valley Health & Hospital System
Agency Administration
Planning and Business Development



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DATE: May 19, 2009

TO: Board of Supervisors

FROM: 
Kim Roberts
SCVHHS - Chief Executive Officer

SUBJECT: Contracting With Outside Entities for the Services of the Santa Clara Valley Medical Center
Department of Pathology and Laboratory Medicine

RECOMMENDED ACTION

Consider recommendations relating to contracting with outside entities for the provision of Santa Clara Valley Medical Center (SCVMC) laboratory services.

Possible action:

- a. Approve recommendation that formal agreements be implemented with outside entities for the provision of laboratory services in excess of \$10,000 annually. Outside entities with less than \$10,000 in annual volume will

- be billed by invoice at list prices.
- b. Approve recommendation to allow SCVMC to offer adjusted pricing for laboratory services to outside entities under contract, when appropriate, in order to remain competitive in the community. The adjusted pricing criteria and rates will be reviewed annually.
 - c. Approve delegation of authority to the SCVHHS Chief Executive Officer, or designee, to negotiate and execute agreements and any amendments thereto with outside entities for the provision of laboratory services, following approval by County Counsel as to form and legality, and approval by the Office of the County Executive. Delegation of authority shall expire on May 18, 2014.

FISCAL IMPLICATIONS

There is no impact on the County General Fund as a result of these actions.

Currently, the SCVMC Department of Pathology and Laboratory Medicine (Lab Department) has approximately 25 outside entities (non-County) to whom it provides services, amounting to approximately \$250,000 in annual billed charges, which represents approximately 0.1 % of the Department's total annual billed charges of \$205 million for FY 2009. The majority of these buyers of the Lab Department's services are relatively small in annual dollar volume, typically less than \$10,000 in revenue. At this time, services provided to three major clients generate over \$10,000 each in annual revenue. Excluding other County agencies, these major clients include, but are not limited to: Quest Diagnostics, Contra Costa Regional Medical Center, and DRI Microgenics.

REASONS FOR RECOMMENDATION

SCVMC's Lab Department provides essential laboratory testing services to health care providers throughout the Bay Area. The Lab Department conducts lab tests not routinely performed in the community. It is sought after as a provider of such services both inside and outside of the SCVHHS network, and has been providing diagnostic services to the community for over thirty years.

The outside organizations that the Lab Department serves include, but are not limited to, other hospital labs, community reference labs, community physician offices, community medical clinics, drug-testing programs, private industries and employers, and veterinarians. The volume of community clients has continued to grow over the years, resulting in over 25 clients at the present time.

On June 8, 2004, the Lab Department requested and received delegated authority to enter into contracts to provide laboratory diagnostic testing services to entities outside SCVHHS. Under the current delegation, the Lab Department has contracted with Quest Diagnostics Inc., and is now in the process of developing contracts with Contra Costa Regional Medical Center and DRI Microgenics. The current delegation will expire on June 7, 2009.

SCVMC is recommending the same approach approved by the Board of Supervisors in 2004 to meet the department's need for flexibility to be able to provide timely, often immediate services to the community in a cost effective manner. Specifically, the Lab Department recommends that formal agreements be implemented with outside entities for the provision of services in excess of \$10,000 annually. Outside entities with less than \$10,000 in annual volume will continue to be billed by invoice at list prices. Approval of this recommendation will allow the Lab Department to continue to provide efficient services for low dollar or test volume, and allows for formalized arrangements for frequent service requests.

SCVMC also proposes to continue to allow the Lab Department to offer adjusted pricing for laboratory services when appropriate. The adjusted pricing criteria with outside entities would be based on several factors, including but not

limited to: (i) volume of specimens received; (ii) whether courier services and lab supplies are provided by the vendor; (iii) actual incremental costs of performing the tests; (iv) the pricing is competitive in the marketplace; and (v) compliance standards and regulations are met.

The delegation of contracting authority to execute the agreements and any amendments thereto is being requested to streamline the contracting process. These actions will enable the Lab Department to keep pace with industry contracting practices, to improve response time for vendors who routinely send specimens to the Lab Department for testing, to continue to be competitive in the marketplace, and to take advantage of additional potential business opportunities.

CONSEQUENCES OF NEGATIVE ACTION

Failure to approve these actions may impact the Lab Department's ability to comply with County contracting practices and to remain competitive in the community.