County of Santa Clara
General Services Agency
Facilities Department
Capital Programs Division

GSA01 052102

Prepared by: Ron Johnson
Capital Projects Manager

Reviewed by: Siva Darbhamulla
Acting Manager, Capital Programs

DATE: May 21, 2002

TO: Board of Supervisors

FROM: G.K. Carruth

G. Kevin Carruth
Director, General Services Agency

SUBJECT: Approve Professional Services Contract with Turner Construction Company, Inc. for Construction Project Management (CPM) services for the Valley Speciality Center

RECOMMENDED ACTION

Approve Professional Services Contract with Turner Construction Company, Inc. relating to providing construction project management services for the design phases of the Valley Specialty Center (VSC) in an amount not to exceed $1,488,000 for period May 21, 2002 through August 20, 2003.

FISCAL IMPLICATIONS

There is no net impact to the County General Fund as a result of this action. Funds for this Professional Services Contract (PSC) have been allocated in Fund 0050, Index 2515, ESBJ 4100, FABC 031, Project No. AC0040. The Board of Supervisors allocated $9.4 million to start the design of this project on November 14, 2000. This is one of the projects currently being considered by the Board for full funding through Certificates of Participation ("Bonds").

CONTRACT HISTORY

Turner Construction Company, Inc. (Turner) has provided construction management services for the County of Santa Clara on three projects over the last nine years. Two of these projects have been completed successfully; one is ongoing. The Consultant's performance on these projects has been very satisfactory.

The first of these projects was the construction management of the new Main Hospital and related projects (also known as the North Tower project) at the Valley Medical Center (VMC). Turner was selected for this project through a competitive selection process. The firm provided construction management services on this project from 1992 through 1999. Total fees paid to Turner for these services were approximately $15 million.

The second project was the construction management of the Administrative Office Building design–build project at VMC. This project was sole sourced to Turner because they were already on site managing the new Main Hospital project. Turner provided services for this project from 1998 to 2000. Total fees paid to Turner for these services were approximately $600,000.

The third project is the management of the on–going Franklin–McKinley Valley Health Center project. Turner was selected to provide construction management services for this project through a competitive selection process. Their contract for this project has a not–to–exceed limit of $940,000 and an expiration date of June 26, 2004.

REASONS FOR RECOMMENDATION

On June 22, 2001 GSA Capital Programs Division issued a Request for Qualifications (RFQ) for construction management services for the VSC. The scope of services in this RFQ included day–to–day project management during the design phases as well as the construction phases of the project. Eight construction management firms submitted statements of

qualifications in response to this RFQ. A Review Board, consisting of representatives from the Health and Hospital System, GSA Facilities Department, and an architect in private practice reviewed the submittals and created a short–list of five firms. The Review Board interviewed and developed a tentative ranking of these five firms on July 20, 2001. The Review Board held a second round of interviews with the top four firms on August 1, 2001 and August 3, 2001. Based on these second interviews, the Review Board determined that Turner was the number one firm. Positive reference checks conducted after the interviews confirmed the selection of Turner for this project

Capital Programs is recommending approval of this PSC for a not–to–exceed amount of $1,488,000 for the period of May 21, 2002 through August 20, 2003 (15–month term). This fee and term limit will allow Turner to provide the services needed to manage the remaining design phases of this project.

Turner's services will be managed by a Capital programs Project Manager.

While the Board is still considering the size and schedule of the bond funding for major capital projects, including the VSC, approval of this Agreement with Turner Construction Company is needed to keep the project on schedule. Turner's tasks will include the day–to–day management of the project during the remaining design phases as well as the validation of the architect's project schedule, cost estimates, and the coordination of plans for site clearance. All of these tasks are on the project's critical path and a delay will directly impact the scheduled occupancy of the facility.

If the Board of Supervisors approves funding for the construction of this project, Capital Programs will bring an amendment to the Board for approval that will extend the scope, term, and not–to–exceed amount of this Agreement to allow Turner Construction Company to provide the services needed to manage the construction phases of this project. Should the Board decide to not move forward with this project as a part of the bond package the County can terminate this contract with Turner for convenience.

BACKGROUND

The VSC is planned to be a 234,000 square foot multi–specialty building consisting of five stories plus a basement, to be located at the southwest corner of Moorpark Avenue and South Bascom Avenue, on the VMC campus. The Strategic Facilities Plan for the SCVHHS, which was accepted by the Board of Supervisors in June 2000, identified the VSC as the highest

priority project for the VMC campus master plan. The VSC will enhance patient access to medical services by bringing together specialty clinics, ancillary support (diagnostic imaging, pharmacy, and specimen collection), physician offices, and special procedure labs currently located and inadequately accommodated in multiple buildings on or near the VMC campus.

The proposed 234,000 square feet includes approximately 184,000 square feet of departmental area consisting of 159 exam rooms, 24 treatment rooms, 26 special procedure rooms, 77 medical staff offices, associated waiting/registration areas, medical assistant work areas and secondary circulation space, to support an estimated 200,000 annual patient visits.

As previously discussed with the Board in October 2001, Capital Programs anticipates that approximately 55,000 square feet of the building will need to be bid as shelled space (without interior improvements) to keep the project on budget. The bid package will include the interior improvements for this shelled space as additive bid items so that these interior improvements can be added to the contract if the bids come in low enough.

The architectural program for the VSC was completed in December 2000 by HMC Group, Architects. The VSC is scheduled to be completed and occupied by December 2005.

The VSC's total budget of $93.8 million is anticipated to be funded from a future bond sale.

California Environmental Quality Act (CEQA)

The design of the VSC will proceed simultaneously with the processing of the environmental reviews and approvals required under CEQA. Capital Programs anticipates that the necessary environmental reviews and approvals will be completed in the next twelve months, which will be two to four months before the project is ready to bid.

CONSEQUENCES OF NEGATIVE ACTION

Without this action, Capital Programs will not have sufficient private construction management resources to manage this project effectively and meet the current schedule.

STEPS FOLLOWING APPROVAL

Capital Programs will manage the Professional Services Contract through completion.

ATTACHMENTS

- (Transmittal submitted on May 9, 2002 1:40:23 PM – PDF Version)
- Turner Contract (Agreements and Amendments)

PROFESSIONAL SERVICES CONTRACT

Between

THE COUNTY OF SANTA CLARA

And

TURNER CONSTRUCTION COMPANY

For

PRE-CONSTRUCTION PROJECT MANAGEMENT SERVICES

For

VALLEY SPECIALTY CENTER, PROJECT No. AC0040

MAY 21, 2002

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EXHIBITS

PROFESSIONAL SERVICES CONTRACT

FOR

PRE-CONSTRUCTION PROJECT MANAGEMENT SERVICES
VALLEY SPECIALTY CENTER

1. RECITALS

This is an Agreement between **THE COUNTY OF SANTA CLARA** (hereinafter "Owner" or "County") and **Turner Construction Company, 110 West Santa Clara Street, San Jose, CA 95113** (hereinafter "PCM Consultant").

WHEREAS, this PROFESSIONAL SERVICES CONTRACT (hereinafter "PSC") sets forth the terms and conditions under which Owner may obtain and PCM Consultant will provide Pre Construction Project Management and related professional consulting services (hereinafter "Services") for Program and Pre Construction Management of the Valley Specialty Center; and,

WHEREAS, PCM Consultant was selected by means of the County consultant selection process, represents itself as having the requisite qualifications, and desires to provide such Services; and,

WHEREAS, the compensation and payment for PCM Consultant's Services are set forth in Part 12 of this PSC; and,

WHEREAS, The County's obligations under this agreement are subject to and contingent upon the availability of funds; and

WHEREAS, Owner's objectives for the Services provided by the PCM Consultant are to obtain unified management of the Project to achieve and maintain time and cost control for the County; and

WHEREAS, this PSC is limited to services that will be provided between May 21, 2002 and August 20, 2003, for which total compensation will not exceed One Million Four Hundred Eighty Eight Thousand Dollars ($1,488,000) plus reimbursement of the payment of any fees as authorized under Part 4.07 of this PSC.

NOW, THEREFORE, Owner and PCM Consultant agree as follows:

2. DEFINITIONS

Acceptance - The formal Acceptance by the County Board of Supervisors of the completion of the Work of a Contract, which to Owner's knowledge has been performed in accordance with the Contract Documents and Submittals.

Addendum - A written change to the Bid Documents issued before the time fixed for the opening of Bids.

Approved Equal – Material, equipment, or method approved by the Owner for use in the project Work performed by the Construction Contractor, as being acceptable as an equivalent in essential attributes to the material, equipment, or method specified in the Contract Documents.

Authorization to Proceed – The term "Authorization to Proceed" shall mean written direction by the Owner's Project Manager to proceed with the Services associated with any Phase or Task identified in a Project Agreement.

Basic Services - PCM Consultant's Basic Services as described in Part 6.02.

Bid - The offer of a Contractor to perform the Work pursuant to a completed prescribed Bid Form, properly executed and guaranteed, and timely submitted.

Bid Documents - The Final Construction Documents approved by the County Board of Supervisors to advertise for construction of a Project, including the Notice to Bidders, Bid Form, Agreement Form, Bidder's Bond form, Performance Bond form, form for the Payment Bond for Public Works, and the Form Escrow Agreement (Substitution of Securities), Project Manual, Plans, Permits, and any Addenda.

Bid Form - The approved form on which Owner requires a formal Bid be prepared and submitted for the Work.

Bid Item - A separately described Work item on the Bid Form, for which each bidder must submit a separate price. Bid items may be the following types:

Base Bid Item - The Basic Work described by the Bid Documents.

Additive Bid Item - A separately described additional Work item, that the Bid Documents clearly identify as an Additive Bid Item, for which each bidder must submit a separate price, and which Owner may choose to award *in addition to* the Base Bid Item.

Alternate Bid Item - A separately described alternate Work item, that the Bid Documents clearly identify as an Alternate Bid Item, for which each bidder must submit a separate price, and which Owner may choose to award *instead of* Work specified in another Bid Item.

Deductive Bid Item - A separately described Work item, which the Bid Documents clearly identify as a Deductive Bid Item, for which each bidder must submit a separate deductive price, and which Owner may choose to deduct from the Base Bid Item.

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HHC
5-23-02

Dedicated to the Health of the Whole Community

Santa Clara Valley Health & Hospital System

Administration
2200 Moorpark Avenue
San Jose, California 95128
Phone (408) 885-4030

- LK wants Fair Oaks info ?
+ be presented @ [illegible] mtg
Need Catholic Charity ltr re:
if they can sustain pjt & partner c us. If not
is there another CBO.?

May 13, 2002

TO: Supervisor Liz Kniss, Chairperson
Supervisor Blanca Alvarado, Vice-Chairperson
Health and Hospital Committee

FROM: Robert Sillen
Executive Director, SCVHHS

SUBJECT: Report-Back on Strategic Context for Facilities Projects

At the April 10th Health and Hospital Committee meeting, Supervisor Blanca Alvarado requested an update of the Valley Medical Center Strategic Business Plan to provide the strategic context for the proposed development and expansion of primary care clinics and services in Milpitas and Gilroy.

An update of the "Strategic Business Plans for Valley Medical Center in a Competitive Market Place" has been prepared and is submitted as Attachment A. This update provides Supervisor Alvarado's requested context and reaffirms the recommendations for the development of a specialty outpatient center on the VMC campus, the Valley Specialty Center (VSC), and expansion of primary care services in key regions of the County.

The report previously submitted to HHC on the proposed Milpitas and Gilroy Clinics is included as Attachment B. A separate report on the expansion of the Fair Oaks Clinic in Sunnyvale was submitted to the Finance and Government Operations Committee on May 2nd and is included as Attachment C.

SUMMARY

The consequences of not building Valley Specialty Center:

- Expansion of VMC's primary care services will be problematic.
- VMC's inpatient census will be at risk.
- Customer satisfaction will erode throughout the entire delivery system.
- VMC's payer mix will degrade as sponsored patients seek care elsewhere.
- VMC's community partners will send their specialty referrals elsewhere.
- VMC's preferential status with Lifeguard and Santa Clara Family Health Plan will be at risk.
- VMC will fall well behind its competitors.

- The County General Fund will be at unnecessary risk.
- VMC will fail to mitigate seismic risks.

OVERVIEW

The proposed expansion of primary care services in Milpitas, Gilroy and Fair Oaks means more people will have access to preventive and primary care that can improve their health and well being. Increasing access to primary and preventive care services reduces the likelihood that a patient will need emergency or inpatient care. For a subset of clients, especially those with chronic conditions, access to primary care will lead to a referral for specialty services. Often the specialist will have an on-going relationship with the patient and function as a primary care provider for a chronic condition while the primary care provider coordinates all of the individual's care. For example, cardiologists and oncologists have an on-going relationship with congestive health failure and cancer patients since these conditions will be on-going parts of the patients' lives. Without access to these specialty outpatient services, the client's condition may worsen and lead to emergency and/or inpatient utilization. Given this, it is critical to ensure an adequate specialty outpatient care service capacity.

The incidence of conditions requiring specialty care is relatively low and often requires proximate access to expensive specialized ancillary services (such as sophisticated cardiac testing or radiation therapy equipment and the related teams of specialized nursing and technical personnel) that is impossible to provide cost-effectively in regional clinic settings. Specialists also frequently manage large numbers of inpatients, so proximity to the hospital is essential to the cost-effective use of their time.

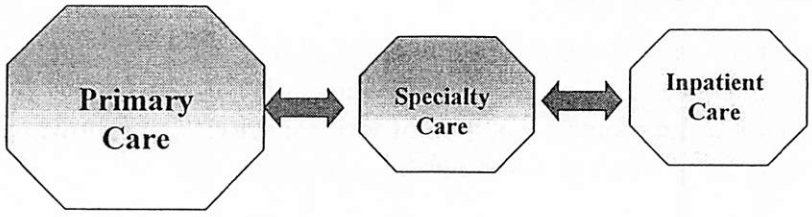
Therefore, the VMC Strategic Business Plan recommends increasing convenient, locally available primary care services in additional neighborhoods in the county supported by the development of a centralized facility for ambulatory specialty care on the VMC campus. To best meet VMC's mission and market imperatives, the Business Plan identified development of VSC as the "most critical next step" for VMC. The business imperative is fully articulated in Attachment A.

VSC will accommodate outpatient specialty clinics, associated special procedure areas and physician offices. VSC is being designed as a six-story building (including basement) of 234,000 square feet near the corner of Bascom and Moorpark.

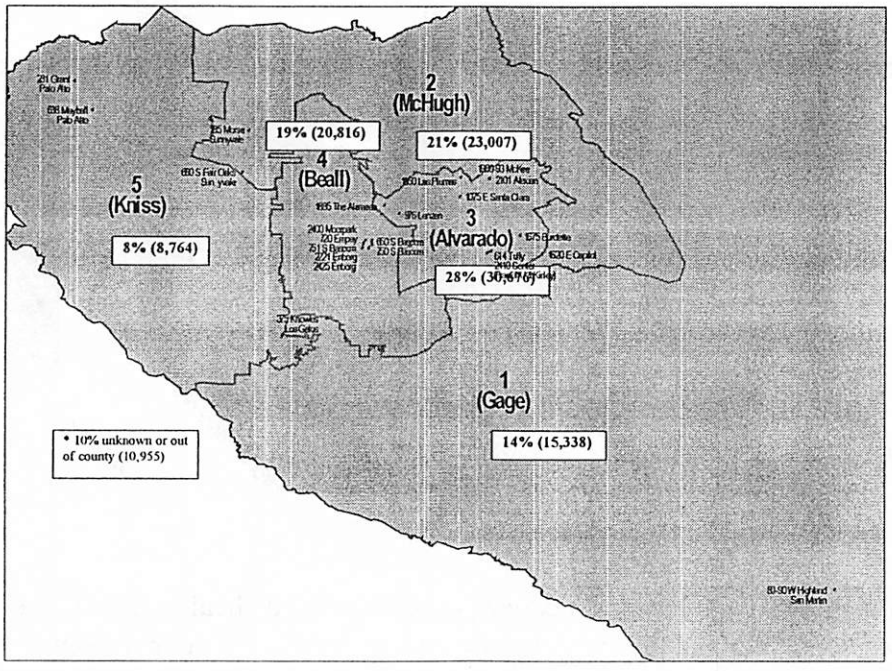
VSC addresses significant space deficits in the existing specialty clinic areas (primarily in the Outpatient Building); consolidates scattered, antiquated outpatient specialty services, including both clinics and special procedure areas, in a single location; and provides capacity to accommodate anticipated increases in demand over the coming years.

VSC AS AN ELEMENT OF THE VMC HEALTHCARE DELIVERY SYSTEM

VMC's specialty clinics are one element in the comprehensive VMC health-care-delivery-system continuum. Balance among these essential elements of the health care system needs to be maintained.



VSC would be a center for specialty services for the whole community. In FY01, the patient origin of specialty outpatient visits by supervisorial district was as follows:



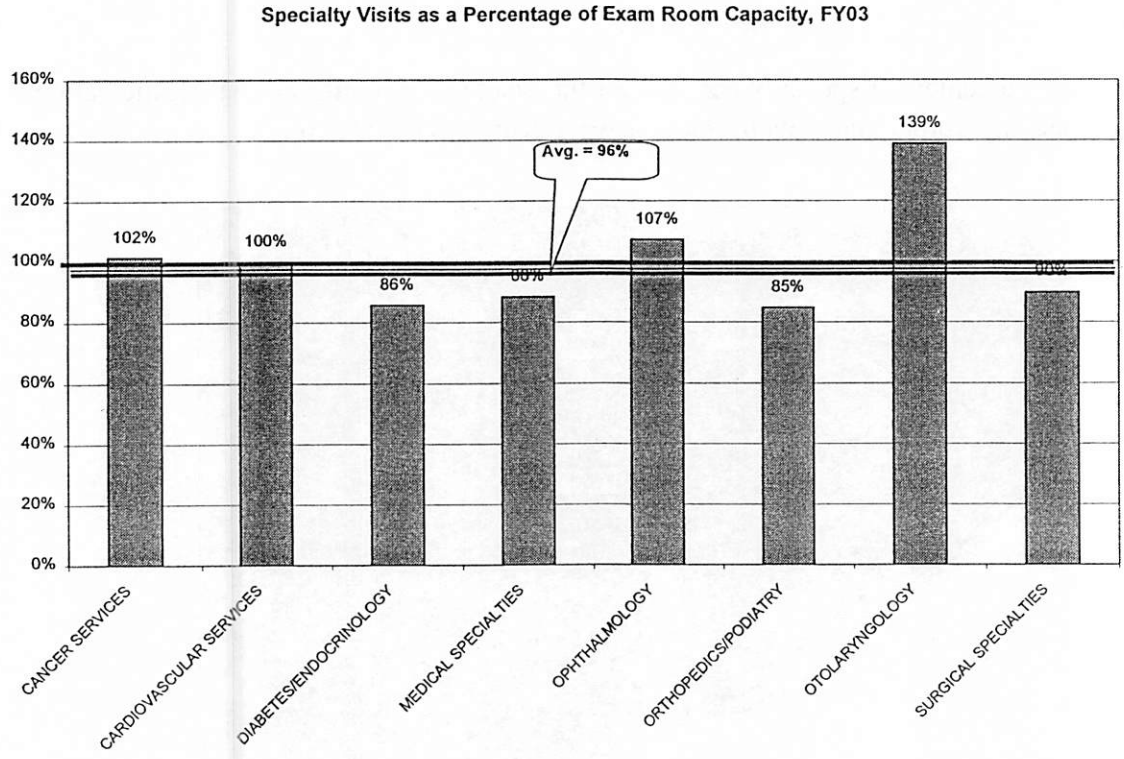
Referrals to specialists in VSC would come from primary care physicians throughout the County, including those at the various Valley Health Centers as well as community clinics and individual private physicians. The primary sources of VMC inpatients are from specialty referrals. In fact there is approximately one admission for every five individual users of our specialty care services.

OBJECTIVES OF VSC

Construction of VSC achieves a number of objectives including:

1. Increase service delivery capacity

VMC has looked at capacity in two ways. First, 95% of all the specialty exam rooms are in use throughout the week. Second, based on productivity standards as given by our facilities consultants, the specialty exam rooms are at 96% of visit capacity. The following graph depicts the average capacity of our specialty exam rooms by service.



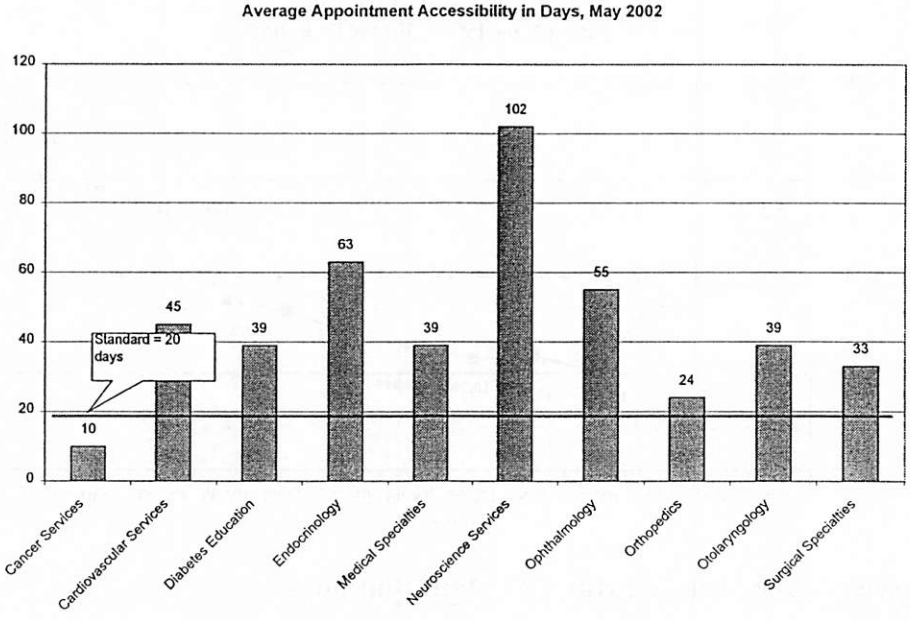
Thus our specialty clinics have become a choke point in the VMC health-care-delivery-system continuum. If we do not expand the specialty services we will not be able to continue to expand primary care and patients cannot be referred to our specialists and/or become inpatients. The only way to provide specialty services cost-effectively is to centralize them on the VMC campus and use VSC as a base for supporting the Valley Health Centers, our community partners, and our inpatient services.

2. Improve access - the largest determinant of customer satisfaction- and ability to respond to disaster situations

The same issues which compromise customer service also disadvantage VMC in competing in the marketplace (see Attachment A for a full discussion of the criticality of this latter objective).

The VMC Business Plan strategy is to enhance VMC's ability to meet its mission and attain financial viability by allowing VMC to increase its proportion of sponsored patients who have the ability to make choices as to their providers. To do so, it must successfully compete in the marketplace. ***Long waits to obtain appointments and overcrowded, unattractive specialty clinics are antithetical to this objective.***

Currently, we have significant delays in scheduling appointments for patients in our specialty clinics. The standard number of days for appointment availability is 20. However, as shown below, the next available appointment for many of the specialties is beyond 20 days:



Physically, our specialty outpatient clinical space is scattered and insufficient both in terms of numbers of exam, treatment and special procedure rooms and in the amount of supporting spaces for those rooms. The environment neither encourages efficiency nor supports good customer service and market competitiveness. The poor working conditions in the outmoded Outpatient Department increase VMC's difficulty in attracting and retaining highly qualified specialist physicians, nurses, and technical staff as well as patients.

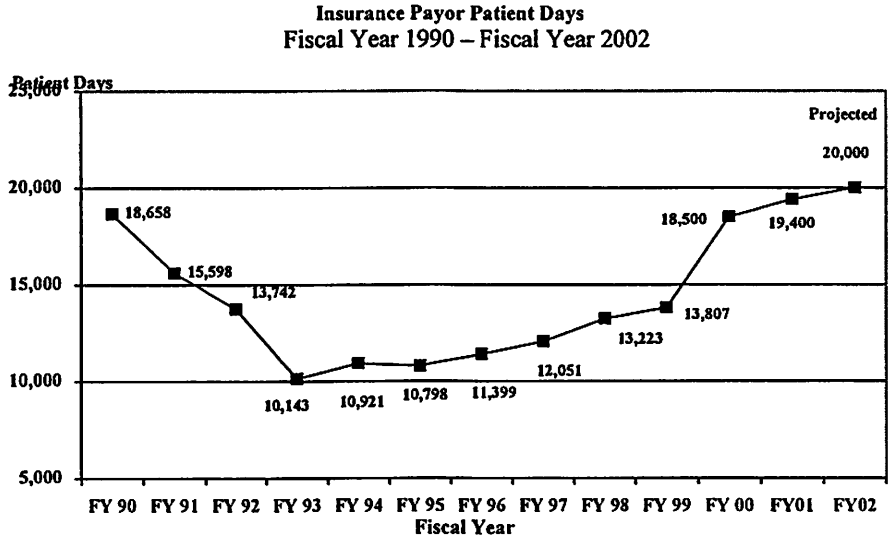
VSC would improve this situation dramatically by providing space to consolidate and expand specialty services. ***Two examples are the VSC Cardiovascular Center which would consolidate activities that are now in five different geographic locations on campus and the Cancer Center which would bring together services now located in four different campus locations.*** This clustering of services will make services them much more convenient for patients who are seriously ill and have trouble moving from place to place.

VSC would consolidate the specialty clinics, cluster clinics with related special procedure areas, substantially increase the number of exam, treatment and procedure rooms and provide

appropriate support spaces. VSC would provide reserve capacity in the specialty services that would be needed in a unified response to any disaster scenario.

3. Enhance financial viability.

The impact of the new VSC facility will be dramatic. A major increase in insured patient activity followed the opening of the new Main Hospital. Much the same will happen with VSC.



4. Mitigate seismic issues in H-1 (the Old Main Building)

The new Main Hospital replaced inpatient beds and selected services located in the seismically unsafe Old Main Building. The scope of the new Main Hospital project did not include specialty procedure labs that remain in the Old Main Building. The SCVHHS Strategic Facilities Plan accepted by the Board at its May 2, 2000 meeting contains a master plan which phases future development on the VMC campus. The first and most significant step in that master plan is building VSC. VSC removes all remaining outpatient care activities from the Old Main structure so that most of that building can be demolished and the balance seismically upgraded.

Not moving forward on development of VSC will require the abandonment of the master plan strategies for reducing seismic risk, improving inpatient support services, and improving emergency response capacity. ***A decision not to proceed with VSC creates a break in the approach by the County to continually reduce its seismic deficiencies and exposure over time.*** The decisions to proceed with the West Wing (95 inpatient beds and ER/Trauma Center) in 1984 and the new Main Hospital in 1994 reflect two steps toward seismic risk management by the County on the VMC campus. Building only clinic space and not including the special procedure labs would reduce the size and cost of the VSC project; however, the seismic risk and liability would remain for the services in the Old Main Building.

The agreed upon approach to addressing seismic issues in the Old Main Building is to seismically upgrade its western portion and empty and demolish its eastern part. The special procedure areas and physician offices that are to be included in the VSC are now primarily located in the Old Main Building. These areas represent some 47,000 of the total of 234,000 square feet in VSC of the building. Vacating the eastern portion and upgrading the western portion are dependent upon the completion of VSC.

CONCLUSION

The Board has authorized $9.4 million to date for VSC. Planning and programming are done. The architect has completed the pre-design phase and schematic design drawings and is starting design development. The Board has approved the lease of space to accommodate programs being displaced from 2220 Moorpark and the space is being readied for occupancy in the fall of 2002. Following site clearance, construction of the VSC building will commence in mid-calendar 2003 with occupancy in the Summer/Fall of 2005. To address the objectives described above in an expeditious manner we recommend: 1) full funding for VSC be included in the proposed upcoming County bond issuance and 2) the $1.48 million Turner Construction Company contract be approved. Delaying action on this contract would increase VSC cost by approximately $200,000 per month.

Attachments:

A: Update of the "Strategic Business Plans for Valley Medical Center in a Competitive Market Place"

B: Report Back on Milpitas and Gilroy Clinics to Health and Hospital Committee, April 10, 2002.

C: Report Back on Fair Oaks Clinic in Sunnyvale to Finance and Government Operations Committee, May 2, 2002.

c: Board of Supervisors

Valley Specialty Center

Frequently Asked Questions

1. ***When was a Medical Office Building first proposed for VMC?***

   The original plan for the replacement of VMC in the 1980's included replacing the Outpatient Department (OPD).

   The 1990 Master Plan by the Design Partnership proposed a 260,000 square foot outpatient facility on the VMC campus.

   In 1992 Anshen and Allen Architects programmed a 220,000 square foot MOB to complement the new Main Hospital. The MOB was deleted from the North Tower Project scope due to insufficient funds. Had this project been completed it would have cost approximately 70 million dollars.

2. ***Why not expand primary care services instead of building VSC?***

   It is not a question of "either/or." Balance must be maintained between the primary care system and specialty care. If we expand primary care and neglect specialty care we will not be able to refer our chronically ill patients or those patients in need of specialized care to our specialtists. This will have a negative impact on our inpatient census and, therefore, VMC finances.

3. ***What kind of financial analysis has been conducted on VSC?***

   A financial analysis has been done which shows that there is no projected increase in the General Fund for expanding specialty care services. In the last five years we have expanded our specialty services with no change in the number of unsponsored patients! ***100% of our expansion has been with sponsored patients.*** The incremental revenue will, at a minimum, offset the incremental operating cost to VMC of the expanded new specialty services in the VSC.

   Building the new Main Hospital led to an increase in sponsored patients. Those referrals came though our specialty services. Building the VSC will continue this trend.

4. ***What is the risk of not building VSC?***

   - Longer waits for specialty services.
   - VMC cannot expand primary care services.
   - VMC's payer mix will degrade as patients seek other choices.
   - VMC will no longer be competitive.
   - VMC will not mitigate seismic risk on the campus.

5. ***What services will be performed in VSC?***

VSC specialty services will be available to adult and pediatric patients from throughout the County. Typically, patients will be referred by their primary-care physicians at one of our regional Valley Health Centers, our affiliated community clinics, or by individual private physicians.

VSC Program	Outpatient Clinic	Special Procedure Area
Cancer Center	Medical and Radiation Oncology clinics (and other specialties, e.g., Gynecologic Oncology)	Radiation therapy (linear accelerator)
Cardiovascular Center	Cardiology and Cardiovascular Surgery clinics (including ProTime clinic)	EKG/Holter, Stress Test; ECHO/Ultrasound; non-invasive vascular lab; Cardiac Rehabilitation
Diabetes Center	Diabetology and Endocrinology clinics; Diabetes Education	
Employee Health	Employee Health Clinic	
Medical Specialties	Dermatology, Gastroenterology, Infectious Disease, Respiratory Medicine, and Rheumatology clinics	Gastroenterology (including endoscopy and esophageal motility); Respiratory Medicine (including pulmonary function, exercise and metabolism, and spirometry)
Neurosciences Center	Neurology, Neurosurgery, and Rehabilitation clinics	Neurophysiology (including EEG/Sleep Studies and EMG/EVP)
Ophthalmology	Ophthalmology and Optometry clinics	
Orthopedic Surgery	Orthopedics clinic	
Otolaryngology	Otolaryngology clinics; audiology	
Podiatry	Podiatry clinic	
Surgical Specialties	General Surgery, Plastic Surgery, and Urology clinics	Urology (including video and regular urodynamic testing)

6. **Will VSC serve patients from all over the County? Why does VSC have to be on campus?**

While decentralization of primary care services can be and has been effectively and efficiently achieved, specialty outpatient services like inpatient services need to be centralized and the main VMC campus represents a location central to the entire County. Physicians providing outpatient specialty services typically have concurrent responsibilities to their inpatients in the hospital; additionally, specialty services require highly trained staff, expensive specialized equipment, and dedicated space. Where warranted and feasible, some select specialty services have been made available at regional locations, e.g., diabetes education, podiatry, etc.

7. ***What is the cost of delaying VSC by 6 months?***

$1.5 to $2.0 million for each six months.

Attachment A

STRATEGIC BUSINESS PLANS FOR VALLEY MEDICAL CENTER IN A COMPETITIVE MARKET PLACE

Update 2002: Report for Health and Hospital Committee Meeting, May 23, 2002

This report reviews Valley Medical Center's progress since the May 2, 2000 adoption by the Board of Supervisors of VMC's Strategic Business Plans (SBP 2000) to improve its position in the Santa Clara market for healthcare services. The goal of SBP 2000 was to focus VMC's efforts to better achieve its "open door" mission by meeting the challenges of market competition for sponsored patients.

The May 2000 Strategic Business Plans:

- identified trends facing all hospitals nationwide and public hospitals in particular – trends that create a dilemma for public hospitals;
- developed a framework for analysis and strategy development toward payers, geographic areas, and partners; and
- recommended strategic actions to:
  - maximize the benefit of managed care relationships;
  - build relationships with community physicians;
  - expand VMC's presence in underserved areas;
  - expand enrollment and sponsorship; and
  - improve County understanding and practices to promote business plan success.

Over the last two years, VMC has made great progress toward its objectives in each of these areas. In concert with others, it has actively expanded sponsored enrollment throughout the County, especially among children. Through managed care and other contracts, it has increased its insured patient volumes and overall patient census significantly and thereby moderated the net county cost of its programs. It is expanding its community ambulatory capacity along with its rapid growth of inpatient census. VMC's progress is a strong argument for the soundness of the strategies the Board adopted in May 2000; however, several recent trends suggest some "mid-course" adjustments in management's priorities. In particular, VMC's success over the last two years has strained the system and showed more clearly than two years ago the importance of

additional capacity, especially facilities for ambulatory specialty care. Valley Specialty Center is a most critical next step; its authorization will allow VMC to continue the progress it has made; delay or cancellation could reverse many of the Health and Hospital System's recent gains.

The 2000 Strategic Business Plans

What did SBP 2000 research conclude about VMC's situation and areas for its strategic focus? The following is a summary of the Plans' important conclusions and comments about their relevance to today's questions.

SBP 2000 Problem: The Dilemma Facing Public Hospitals

Public hospitals throughout the nation face a dilemma of rising mission imperatives on the one hand versus declining federal and state resources to support them on the other hand. They must continue to meet their mission imperatives as the "open door" providers in their communities at a time when increasing numbers and proportions of the nation's residents lack health insurance, welfare reform has reduced the Medicaid rolls, and the federal and state governments are looking to reduce payments to all hospitals to pay for higher costs of drugs and other patient care services. The special funds that have preserved the safety net over the last two decades are at risk. These marketplace trends create financial difficulty for most hospitals. As a result, public hospitals face intensified competition for sponsored patients, but no competition for the uninsured. To keep their doors open, public hospitals must meet market imperatives and compete for sponsored patients. As government institutions, they face barriers to achieving more efficient operations that other hospitals do not face.

Santa Clara County long has been one of the most difficult markets for health care providers in the country. For VMC, the public hospital dilemma is particularly acute. VMC faces competition from established regional/national hospital systems that have relationships with established medical groups and managed care plans covering high proportions of the area's residents. Private hospitals can pull back to services that are profitable regardless of community need; the plans announced by Tenet and HCA show just this strategy. Some private physicians have ended their Medicare managed care contracts and many others are considering reducing their involvement with publicly financed patient care. Private hospitals do not intend to replace their physical facilities and expand their services in line with the expected growth and aging of Santa Clara's

population. This will continue to increase the hospitals' abilities to negotiate higher rates from managed care companies, but at the risk that any set of factors that increase the demand for care – a flu epidemic, bioterrorism, or an earthquake, for example – will overwhelm the County's health care system. VMC's doors, in contrast, must be open to the entire community. These trends will make VMC's emergency services, inpatient beds and ambulatory services – especially those in referral specialties – even more important to Santa Clara's residents in the future.

The dilemma facing public hospitals can be mitigated by strategies aimed at maximizing the use of the public hospital's facilities and minimizing operating costs. Most important are focused approaches for maintaining and expanding their historical Medicaid populations. In VMC's growing market, the Hospital has been able to use its delegated contracting authority to expand significantly its private contract business with managed care plans. VMC has been successful in increasing its patient volumes and market share, especially in increasing its numbers of Medicare and Insurance patient days. VMC's new Main Hospital facility and highly competent, motivated medical staff have provided a solid basis for further success.

Cost control also is important for public hospitals, not only for mitigating the growth in the public subsidy for public patients, but also for the hospital's ability to offer prices to managed care plans that will attract private patients as well. Seeking efficiency brings together the imperative of market competition with the imperative of public stewardship to assure open door access. Operating flexibility delegated by the Board of Supervisors will remain critical to VMC's ability to control its costs.

SBP 2000 plan identified six overall conclusions from its review of VMC's mission, the Santa Clara market, and the strategies of highly successful public hospitals:

1. VMC must be able to compete in the health care marketplace -- meet the market's imperatives -- if it is to succeed in meeting its mission imperatives.
2. VMC should expand and improve the "gateways" to its services on-campus, replacing VMC's outpatient department (OPD) with a building built to medical group practice standards, and off-campus, expanding ambulatory care in specific areas that are underserved but also have a mix of sponsored patients.

3. Several types of partnerships have high potential for attracting sponsored patients who would use existing VMC resources. In particular, VMC should seek to expand partnerships with managed care plans and community physicians.
4. VMC managers and medical staff leaders have limited time and resources for new initiatives, so focus and triage are important.
5. The market is rapidly changing; managers need freedom within a framework to be able to seize opportunities and take risks responsibly.
6. The Supervisors and the political tradition in Santa Clara County have a preference for expansion of access to needed services in the community and making the best use of the assets they have put into place, rather than cutbacks or outsourcing that could compromise County programs, employment, and finances.

SBP 2000 Framework: Where Should VMC Focus its Efforts?

The Strategic Business Plans recommended that VMC should focus its efforts to improve its mission achievement and market position in three areas: payers, geographic areas, and partners:

- Payers. VMC's inpatient contribution margins (net revenues in excess of variable costs) from all payers are positive: net county costs are reduced by the addition of any additional inpatients, other than unsponsored ones. SBP 2000 recommended that VMC should focus on expanding public program enrollment and developing relationships with private managed care plans to slow the growth in net county cost.
- Geographic Areas. SBP 2000 recommended that VMC should find opportunities to expand geographically in areas with mixed sponsored and unsponsored patients, especially those with high growth in population, high concentrations of Medi-Cal beneficiaries, and relatively low VMC Medi-Cal market share. These regions included Franklin-McKinley, Central San Jose/VMC Campus, and South County. Two other areas which currently lack VMC presence, Milpitas-Berryessa, with its high numbers of Medi-Cal eligibles and Santa Clara/VMC campus also were identified as areas for potential ambulatory care expansion. Downtown San Jose warrants special focus in light of HCA's evolving plans for the San Jose Medical Center campus.
- Partnerships. SBP 2000 recommended that VMC should seek partners who share VMC's values and can bring patients to VMC who will use resources that now are available (where marginal costs are low) and/or provide resources needed by VMC patients where VMC would incur high costs of providing the services directly. Partnerships with community physicians and with managed care plans (such as Lifeguard) in particular can be used to bring focused groups of patients to VMC, or to enable VMC to expand its services geographically. VMC should continue to take a broad approach to partnerships, in line with its mission as the County's open door provider.

Strategic Actions: SBP 2000 Recommendations and 2002 Update

SBP 2000 recommended that VMC should take a number of actions over the next three years in the following five areas, to make best use of VMC for the public benefit:

1. Maximizing the benefit of managed care relationships.
2. Building relationships with community physicians
3. Expanding VMC presence in underserved areas
4. Expanding enrollment and sponsorship
5. Improving County understanding and practices to promote business plan success

What should VMC's priorities be in each of these areas today, and what are the critical issues for the next several years? Following a discussion of emerging trends since 2000, VMC's progress and remaining challenges in each of these areas are discussed.

Emerging Trends

Since 2000, four trends have emerged that were not fully visible in SBP 2000, each of which is important to VMC's ability to continue to achieve the goals set in SBP 2000 and continue to achieve its mission in a highly competitive environment:

- The 2000 Census showed that Santa Clara County's population continues to grow and age, and at faster rates than projected in SBP 2000. The Census numbers on births and immigration in particular led the Association of Bay Area Governments to increase its projections of future population for the County. Over the next 30 years, Santa Clara's population is expected to grow by nearly one-third to 2.2 million, an addition of more than 525,000 people. While Santa Clara will remain younger than other Bay Area counties, the growth in its number of elders will significantly increase the need for ambulatory and inpatient specialty medical services, especially those focusing on chronic illness. Specialists such as cardiologists and oncologists frequently are the primary care providers for elders. Continued active utilization controls, the development of ambulatory care modalities, and VMC's hospitalist program for inpatient physician care have had the result that essentially all admissions are now for specialty care.
- The 9-11 and anthrax terrorist attacks showed clearly the vulnerability of our society and underscored the need for reserve capacity in the health care system, especially in specialized services closely linked to public health. All health care institutions and providers share this responsibility, but it falls disproportionately on VMC, as the county's open door provider and the primary partner of the County's Public Health Department in the Santa Clara Valley Health and Hospital System.
- The varieties of trends affecting individuals' choices of careers have created extreme difficulties in recruiting and retaining a highly qualified healthcare workforce. This puts a premium not only on wages and benefits but also working environments, including physical facilities designed to maximize the efficiency of staff efforts and promote the development of leading services that will give staff a sense of mission achievement.
- Other providers are responding to these trends with focused strategies and targeted expansion. Private hospitals' plans to rebuild their facilities to meet the timelines for seismic

safety improvements required by SB1953 include modest inpatient expansions – less than the growth in population would suggest – and focus on profitable services. Providers nationwide and in Santa Clara are exiting from Medicare and Medicaid managed care arrangements, and some are refusing to take on additional publicly insured patients. Especially for its unsponsored patients, but increasingly for Medicaid patients as well, access will depend on VMC having its own skilled employed workforce. At the same time, ambulatory care providers such as the Palo Alto Medical Group, San Jose Medical Group and Camino Medical Group have invested heavily in state-of-the-art, attractive clinic space for specialty and primary care services. This has "raised the bar" for VMC, and made the contrast with VMC's circa 1950 OPD building on campus even more striking. This is a significant disadvantage to VMC's ability to offer services acceptable to all the residents of the county, especially insured patients.

Taken together, these trends underscore the continued importance of physical facility development to VMC's ability to meet both its mission and its market imperatives.

SBP 2000 Recommendations, VMC Progress, and Update

1. Maximizing the Benefit of Managed Care Relationships

SBP 2000 recommended that VMC should:

- Continue to seek contracts to provide specialty services to persons enrolled with private managed care plans, meeting regularly and seeking opportunities with the largest MCOs in the area, negotiating especially about services where VMC has capacity, and reporting progress to the HHC and BOS at six-month intervals;
- Continue its strategy of seeking a broad set of relationships, creating breadth and multiple opportunities with managed care organizations;
- Review the economic performance of each existing agreement, focusing especially on payment rates for VMC's unique services and negotiating clauses to improve payment terms and constrain VMC's risks;
- Maintain its policy of rejecting new proposals that fail to meet economic thresholds or would require expansion of capacity, unless expansion also benefits VMC's mission patients;
- Seek a primary care relationship with one or more plans; and
- Regularly assess service delivery performance, patient satisfaction, enrollee retention, and economic benefit.

Progress. VMC has moved forward with contracts with Lifeguard and Kaiser that have opened the door for significant private insurance business. These contracts have built VMC inpatient volumes and provided flows of funds that have reduced net county costs. Since 1999, VMC's insurance patient days are up nearly 45% and admissions by nearly 90%. VMC's overall

inpatient census has increased significantly since the opening of the new Main Hospital. Now it is running five percent above this year's increased budget projections. Managed care contracts have increased the use of VMC's ambulatory specialty services, in part because VMC is the only specialty provider to which Lifeguard's primary care physicians can refer patients without prior plan approval. VMC's insurance patient visits are up by 55% since 1999, an increase of nearly 48,000 visits, most of them for specialty care. A higher percent of them are leading to inpatient admissions. Changing market dynamics and effective contracting strategies also have improved the economics of VMC's contracts. Private managed care plans see VMC as a referral provider of specialty services, which complements the referral volumes from VMC's own ambulatory primary care operations and community clinics in the neighborhoods.

Update 2002. VMC should continue its successful strategies with managed care organizations, including Santa Clara Family Health Plan and VHP, to keep its door open to these sponsored patients and produce scale economies of benefit to all its operations. As discussed further below, VMC's challenge now is to continue to improve its facilities and systems, to make sure that patients' and referring physicians' experiences are favorable, so they will continue to request access to VMC.

2. Building Relationships with Community Physicians

SBP 2000 recommended that VMC should:

- Assess VMC/ACHS services with available physical capacity and/or tight MD capacity;
- Through VMC medical staff leaders, seek agreements with community physicians in the desired specialties, assessing additional patient volumes, payer mix and additional VMC staff needed to handle the patients under each potential agreement;
- Leverage expanded physician relationships obtained though Lifeguard to encourage inpatient specialty referrals;
- Investigate private physician interest in space in the office building (Valley Specialty Center) that will replace VMC's existing OPD;
- Off-campus, test co-location with community physicians as a way to expand primary care in one area in which ACHS under-serves the community; and
- Continue to work with VMC's existing FQHC partners, exploring especially their interest in additional locations.

Progress. Since 2000, VMC's contracts with Lifeguard and SCFHP, through which VMC provides referral ambulatory and inpatient services for private primary care physicians, have increased the familiarity of private physicians with VMC physicians and services. This has been critical to the development of sponsored patient volumes at VMC. VMC's contract with Kaiser has made effective use of interventional cardiology capacity that VMC otherwise would not have filled. Contracts with individual physicians have provided capacity in services at the levels that VMC has needed. On the other hand, VMC's experience since 2000 has been that development of agreements with private physicians takes time and management resources, and may not produce results even if a first assessment suggests that there is a commonality of interest on which to base a relationship. Several physician partnerships that initially looked favorable have fallen through, and in other situations VMC has sought partners in communities it has targeted for expanding access, but not been able to find them. Finding partners willing to help meet VMC's mission toward unsponsored and Medi-Cal patients is increasingly challenging. Further, in order to negotiate effectively, VMC needs resources (for example, space, operating room time) that the other party desires. As capacity throughout the VMC system has become more fully utilized, these resources are in short supply to meet VMC's missions.

These positive and negative experiences over the last two years can help focus VMC's future efforts to expand access.

Update 2002. VMC should continue to maximize the value of its relationships with managed care plans. VMC should take a more reserved posture than recommended in SBP 2000 toward partnerships with private physicians – one of "enlightened opportunism," rather than "active prospecting." VMC should make sure that it has the information and analytic framework to be able to respond to physician requests quickly with a strong understanding of the consequences of the particular "deal" being proposed, but not invest management time in seeking out private physician partners unless absolutely needed to meet VMC service requirements. VMC needs to set the capacity of its own ambulatory facilities on campus and in local communities based on the needs of its patients and the physicians fully in the County system. In light of trends in provider willingness to take on publicly funded patients, VMC should carefully and regularly

assess its own capacity and continue to focus on providing access through its own facilities and medical staff and its longstanding FQHC partners.

3. Expanding VMC Presence in Underserved Areas

SBP 2000 recommended that VMC should:

- Build the Franklin-McKinley project now in design.
- Replace VMC's on-campus outpatient department, which is a critical front door for VMC inpatient services, with a medical office building (Valley Specialty Center) of a quality consistent with the new Main Hospital.
- Plan a regional service strategy for the rapidly growing South County region, where hospital consolidation has reduced inpatient capacity and raised issues of access to reproductive health services.
- Explore options for expansion in Downtown San Jose in light of Columbia's anticipated service reductions on the SJMC Campus; and
- Explore partnerships for providing VMC services in the Milpitas-Berryessa and/or Santa Clara regions, where VMC currently has no presence.

Progress. Development of physical facilities for ambulatory care – the gateways to all VMC services – now is the most significant challenge facing VMC. Its success in contracting with managed care plans and expansion of enrollment in public insurance plans has created capacity bottlenecks that threaten to reverse VMC's progress. VMC facilities in the neighborhoods are reaching their capacity limits and most of the specialty services on campus are oversubscribed.

VMC is about to begin construction on the Franklin-McKinley center. It has developed initial plans for expansion of primary care services at Fair Oaks and in Milpitas and Gilroy, and begun investigation of service expansion elsewhere in the County as well. Changing market dynamics, as discussed above, make it likely that these will need to be VMC projects, rather than accomplished through partnerships. The Valley Specialty Center (VSC) project is in design development and bond financing is needed for construction.

The VSC project, including demolition of the existing OPD building, is the lynchpin for development of the VMC ambulatory care system countywide and also for the critical facilities projects on campus that are required by SB1953 in order to mitigate seismic risk and replace

obsolete buildings. The current OPD building that houses VMC's outpatient specialty services is the least up-to-date part of the whole VMC system. It is unattractive and unsuitable for the needs of patients and providers, especially in comparison with the new ambulatory specialty facilities of Palo Alto, Camino and San Jose Medical Groups. The growth and aging of the population in Santa Clara County will increase the need for ambulatory specialty services, especially those for cancer, heart disease, diabetes, and other chronic conditions of the elderly. To meet these needs cost-effectively, facilities for physician specialists need to be close to the expensive ancillary services (e.g., radiation therapy and infusion facilities, cardiac diagnostic and treatment equipment) they use; the specialized nursing and technical personnel the services require; and the hospital, where the specialists manage the care for relatively large numbers of inpatients. From this base, they can provide consultative help and backup for primary care physicians in the community. If patient volumes warrant it, specialists also can "circuit ride" to offer directly in the community clinics selected services that do not need expensive specialized equipment and care teams.

Update 2002. VMC should set its highest priority on development of the Valley Specialty Center, which is the lynchpin for system development countywide and on campus. It is the most important gateway to VMC's inpatient services (more than 45% of admissions), and will provide needed reserve capacity for Santa Clara County's public health response to any disaster scenario. If the specialty referral services planned for the VSC are not available, any growth in primary care services, including through the planned expansion in the neighborhoods, will only increase wait lists and beneficiary dissatisfaction, which will threaten VMC's progress and continued referrals by managed care plans. Not moving forward with VSC also would seriously compromise VMC's ongoing efforts to mitigate seismic risk and county liability concerns.

As discussed above, expansion of ambulatory primary care services in the neighborhoods also is important to VMC's mission achievement, and VMC should set high priority on the plans for Fair Oaks, Milpitas and Gilroy. VMC should monitor developments in downtown San Jose and for now continue to service the region through its existing facilities.

4. Expanding Enrollment and Sponsorship

SBP 2000 recommended that VMC should:

- Involve SSA in plans for new sites in underserved areas, to assure maximum opportunity for expansion of enrollment. This should include assuring adequate space is provided for SSA eligibility staff and seeking SSA information on potential eligibles as one input for deciding expansion locations.
- Provide space in Administrative Office Building 2 (AOB2) for an SSA district office on VMC campus and space for Council on Aging to develop fuller continuum of services for older adults;
- Continue planning to combine funding streams in an integrated program of medical and social services for elders, completing the program planning underway with Council on Aging and On-Lok and securing the needed waivers;
- Deepen its effort to enroll all who are eligible for existing public insurance programs;
- Participate in private and public efforts to expand sponsorship, working with FHP and VHP to maximize Healthy Families enrollment related to VMC; working with VHP to design products for individuals, small groups, and others; and working with a variety of partners to develop and market insurance products for small businesses; and
- Seek alternatives for funding demonstrations, continuing to actively monitor developments at the federal and state level to remain at the cutting edge of program development and seeking new partners among the community foundations and other philanthropies in Silicon Valley for developing demonstrations of funding approaches for the uninsured.

Progress. The County's investment in outreach workers to expand enrollment in Medi-Cal and Healthy Families has been extraordinarily successful, and the development with Working Partnerships, P.A.C.T., and Family Health Plan of the Healthy Kids insurance program has been a model for the nation. Since January 2002, Medi-Cal enrollment in the County is up by 18%, Healthy Families enrollment has more than doubled, and the Healthy Kids program has enrolled nearly 8000 children. Most come to VMC and its community clinics, where enrollment in these public managed care programs is up by nearly 80%. These programs have demonstrated the ability of new ideas in Santa Clara County to attract private philanthropic funds. Initial planning for AOB2 has occurred. On the other hand, since 2000 many counties, including Santa Clara have moved away from the AB1040 framework for integrated funding for care for elders, focusing instead on integrating services and information for improved care management.

Update 2002. VMC should continue its active involvement in efforts to increase enrollment and sponsorship, through the expanding Healthy Kids program and other outreach activities and

encouraging development of web-based and other convenient mechanisms for assuring that those who are eligible for benefits get them. Additional efforts in this regard likely should be focused on elders; other counties with significant immigrant populations have found that sizeable numbers who are eligible for Medicare may not have enrolled.

5. Improving County Understanding and Practices to Promote Business Plan Success

SBP 2000 recommended that Santa Clara County should:

- Continue the Board's longstanding support for VMC's strategy of achieving its public mission by providing market-competitive services for sponsored and unsponsored patients;
- More fully explore the potential for reducing its employee benefit costs though use of VMC as a cost-effective provider, considering incentives for County employees to choose insurance options that focus care at VMC and its ambulatory care sites;
- Expand VMC's existing delegated authority to other types of agreements, especially contracts with physicians and other arrangements to expand VMC capacity or provide services flexibly and cost-effectively; and
- Review the practices of County departments on which VMC relies for services, to assure that they promote VMC's ability to compete in the healthcare marketplace, where VMC is judged by its ability to conform to the business standards of the healthcare industry.

Progress. VMC's success over the last two years has been due in large part to the County's endorsement of VMC's overall strategy of achieving its public mission by providing market-competitive services for sponsored and unsponsored patients. VMC's contracting success has shown the value of delegated contracting authority for the system. The number of managed care contracts has increased, and they have provided greater economic value, reducing the growth in net county costs. Since 2000 also, the establishment of a County Counsel satellite office at VMC has smoothed workload and improved progress on joint tasks.

Update 2002. Continued Board support of VMC's overall strategy is critical to its success. County bond authority for development of the Valley Specialty Center, which is the lynchpin for system development countywide and mitigation of seismic risk on the VMC campus, is the most critical near-term need. It is the most important gateway to VMC's inpatient services, a crucial support for the activities of primary care practitioners in VMC and community clinics, and will provide needed reserve capacity for any disaster scenario.

Conclusions

VMC has opportunities to continue to better achieve its mission and improve its financial performance through focusing its program development on particular payers, in particular geographic areas, and with partners. Expansion of VMC specialty services through the Valley Specialty Center project will help increase enrollment and sponsorship, better enabling VMC to meet its mission imperatives, support the expansion of primary care access in the neighborhoods, and draw federal and state dollars to help mitigate the growth of net county cost. Without this building, the system as a whole will remain capacity-constrained, which will erode its recent gains.

VMC will continue to need operating flexibility and support from the County to take advantage of opportunities as they arise, as well as investment funds for the near term and ongoing costs of these initiatives. Capitalizing on these opportunities will take concerted action by the Board of Supervisors, County Administration, and VMC's leadership, medical and other staff. Through them, VMC can maintain its position as one of the nation's premier public hospitals, achieving its public mission by succeeding in the competitive healthcare marketplace.