



SUBMITTAL TO THE RIVERSIDE UNIVERSITY HEALTH SYSTEM MEDICAL CENTER GOVERNING BOARD COUNTY OF RIVERSIDE, STATE OF CALIFORNIA



ITEM: 15.1
(ID # 9920)

MEETING DATE:

Tuesday, October 22, 2019

FROM: RUHS-MEDICAL CENTER:

SUBJECT: RIVERSIDE UNIVERSITY HEALTH SYSTEM-MEDICAL CENTER: Ratify and Approve the Agreement for Medical and Surgical Distribution Services Between Medline Industries, Inc. and The County of Riverside, California on behalf of Riverside University Health System for Medical and Surgical Distribution Services for 2 years with two optional, one-year renewals; District: 5. [Total Cost \$87,228,000 up to \$2,180,700 in additional annual compensation] 100% RUHS Enterprise Funds

RECOMMENDED MOTION: That the Board of Supervisors:

1. Ratify and approve the Medical and Surgical Distribution Services Agreement between Medline Industries, Inc. and The County of Riverside, California for medical and surgical distribution services for an amount of \$43,614,000 for two years with the option to renew for two additional one-year periods for a total of \$87,228,000 through June 30, 2023, and authorize the Chairman of the Board to sign the Agreement on behalf of the County; and
2. Authorize the Purchasing Agent, in accordance with Ordinance No. 459, based on the availability of fiscal funding and as approved by County Counsel to: sign amendments that exercise the options of the agreement including modifications of the statement of work that stay within the intent of the Agreement; and sign amendments to the compensation provisions that do not exceed the sum total of ten percent (10%) annually.

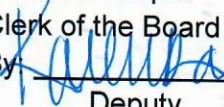
ACTION:Policy


Jennifer Crankshaw, Chief, ACJW Officer - Health System 10/9/2019

MINUTES OF THE GOVERNING BOARD

On motion of Supervisor Perez, seconded by Supervisor Spiegel and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Jeffries, Spiegel, Washington, Perez and Hewitt
Nays: None
Absent: None
Date: October 22, 2019
xc: RUHS

Kecia R. Harper
Clerk of the Board
By 
Deputy

**SUBMITTAL TO THE RIVERSIDE UNIVERSITY HEALTH
SYSTEM MEDICAL CENTER GOVERNING BOARD OF DIRECTORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 21,807,000	\$ 21,807,000	\$ 87,228,000	\$ 87,228,000
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0
SOURCE OF FUNDS: 100 % RUHS Medical Center and Community Health Centers Enterprise Funds.			Budget Adjustment: No	
			For Fiscal Year: 19/20 – 22/23	

C.E.O. RECOMMENDATION: Approve

BACKGROUND:

Summary

Currently, the Riverside University Health System (RUHS) Medical Center and Community Health Centers (CHC) use over 6,000 unique and regularly ordered medical-surgical supplies. Medical-surgical supply distribution services, like Medline, ensure that the supplies hospitals and other providers use are readily available for quick turnaround ordering and supply replenishment. In most cases, if orders were placed with each manufacturer or supplier individually, there would be a several day to multi-week delay in the receipt of ordered supplies. Manufacturers/Suppliers also rely on distribution services to ensure their products are stocked locally for the distributor’s clients to access quickly, as needed.

Medline Industries, Inc. has been the primary medical-surgical supply distributor for Riverside University Health System Medical Center and CHC clinics since its 2016 purchase of an earlier distributor, Professional Hospital Supply (PHS). Medline competes for opportunities offered by the Medical Center’s group purchasing organization, Vizient, Inc., and is also willing to offer opportunities above and beyond the Vizient contract pricing. The proposed Agreement is one such opportunity – it incorporates the Vizient competed terms and conditions for medical supply distribution services, as well as additional locally negotiated terms that improve on the competed terms. In addition to distribution services, Medline also offers clinically equivalent substitute products through their manufactured product portfolio at prices that are comparable with Vizient competed items.

This current motion requests approval of a multi-year agreement for two years with the option to renew for two additional one-year periods. The total annual “not to exceed” amount of \$21,807,000 includes estimated purchasing through Medline of both Medline brand products and Vizient competed items, and the related distribution services for RUHS Medical Center, the Community Health Centers and the new Medical Office Building opening in 2020. However, the Agreement does not obligate the County to buy any particular product(s) or any set amount of products from the distributor.

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Impact on Residents and Businesses

The approval of this Agreement will have a positive impact on the citizens and businesses of Riverside County as Medline Industries Inc. provides high quality products for use in the care of patients at both the Medical Center and the CHC clinics. In addition, Medline Industries, Inc. maintains two facilities in Temecula where a large portion of the medical-surgical supplies that are ordered for RUHS facilities are sourced and over 600 people are employed.

Additional Fiscal Information

Funds for this contract have been allocated in the FY19/20 budget. Budget adjustments are not necessary. Estimated contract costs are based on utilization reports and estimated costs associated with opening new RUHS buildings.

Description	Year 1 FY 19/20	Year 2 FY 20/21	Optional Year 1 FY 21/22	Optional Year 2 FY 22/23	Total
Medical and Surgical Distribution Services	\$21,807,000	\$21,807,000	\$21,807,000	\$21,807,000	\$87,228,000
Total Cost:	\$21,807,000	\$21,807,000	\$21,807,000	\$21,807,000	\$87,228,000

Contract History and Price Reasonableness

The County entered into a similar contract with Professional Hospital Supply, Inc. (PHS) on October 20, 2015. The rights and obligations under that Agreement were assigned to and assumed by Medline Industries, Inc. effective July 1, 2016, with the consent of the County, when Medline purchased PHS. Also, on October 20, 2015, the County entered into a Corporate Program Agreement with MedCal Sales, LLC, a subsidiary of Medline, Inc. for distribution services.

This Agreement will replace those prior arrangements. It includes both the terms and conditions of a national competition for medical supply distribution services conducted by the group purchasing organization, Vizient, approved by this Board (September 17, 2019; item 15:2, #10828), as well as additional locally negotiated pricing discounts based on the RUHS historical volumes of purchasing medical-surgical supplies.

SUBMITTAL TO THE RIVERSIDE UNIVERSITY HEALTH
SYSTEM MEDICAL CENTER GOVERNING BOARD OF DIRECTORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA


Teresa Summers, Director of Purchasing 10/9/2019


Brianna Lantajo, Management Analyst 10/16/2019


Gregory B. Priantos, Director County Counsel 10/9/2019

AGREEMENT
for
Medical and Surgical Distribution Services
Between
Medline Industries, Inc.
and
The County of Riverside, California on behalf of
Riverside University Health System

This Agreement is entered into between Medline Industries, Inc., an Illinois corporation with its corporate offices located at Three Lakes Drive, Northfield, IL 60093 ("Medline") and the County of Riverside, a political subdivision of the State of California, on behalf of Riverside University Health System, located at 26520 Cactus Avenue, Moreno Valley, CA 92555 ("Riverside") and is dated and effective July 1, 2019.

I. OVERVIEW AND PURPOSE.

1. Intent.

Riverside is a member of the group purchasing organization Vizient. It is the intent of Medline and Riverside that certain Vizient Medical and Surgical Distribution Agreement No. DM0026, dated and effective as of September 1, 2012, (the "Vizient Agreement") be included as part of this Agreement.

2. Term.

The term of this Agreement will be for two (2) years, beginning July 1, 2019. Two optional, one-year renewals are available upon execution by both Parties of a written Amendment to this Agreement. This Agreement may be terminated at such time that Medline is not awarded an extension of Vizient Agreement No. DM0026 during the original or any extended term.

3. Termination. Either party may terminate this Agreement on ninety (90) days written notice, without cause.

II. COVENANTS.

Medline and Riverside agree to the following:

1. Participating Member.

Riverside is added as a Participating Member of the Vizient Agreement, and as such Participating Member Riverside is eligible to participate in the terms contained in the Vizient Agreement.

2. Delivery Schedule.

Medline will provide up to five (5) day per week delivery to Riverside currently being serviced out of Medline's Temecula, CA Distribution Center.

3. Distribution.

Medline will distribute Products for a fee based on the price of the item in accordance with the table below. The volume of Medline Brand Product purchases will be reviewed annually. Any proposed mark-up changes will be communicated to Riverside with a ninety (90) day written notice.

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DISTRIBUTED PRODUCT CATEGORY	Tier 1 Cost Plus (with 25% Ratio of Distributor Brand Purchases)	Tier 2 Cost Plus (with 30% Ratio of Distributor Brand Purchases)	Tier 3 Cost Plus (with 35% Ratio of Distributor Brand Purchases)	Tier 4 Cost Plus (with 45% Ratio of Distributor Brand Purchases)
Base Mark-up - National Brand Contract Products – Bulk	1.25%	1.00%	0.75%	0.50%
Medline Brand Contract Products – Bulk	0.00%	0.00%	0.00%	0.00%
Medline Brand – New Product Conversions Guaranteed Aggregate Savings Bulk	5.00%	5.00%	5.00%	5.00%
Delivery to RUHS Clinic locations	5.00%	5.00%	5.00%	5.00%
Rebate on Medline Brand Growth Year over Year*	5.00%	5.00%	5.00%	5.00%

*To qualify for the Medline Brand Rebate of five percent (5.00%) of the total year-over-year growth on the amount spent on Medline Brand products in the previous year, Riverside must purchase an equal to or greater amount of Medline Brand Products as compared to the previous year, as well as be current on payment terms as of July 1st of each year. The previous years Medline Brand Product sales (“Baseline Sales”) from September 1st, 2018 – August 31st, 2019 is \$4,031,884.

For the first 12 months of the Agreement, Riverside purchases will receive Tier 2 mark-ups. After the initial 12 months of the Agreement, Medline will review the actual ratio of purchases based on the previous three (3) months of sales, and adjust the Tier that will be charged during months thirteen (13) through twenty-four (24).

In the event Riverside falls below Tier 1 in Medline Brand purchases, Medline may increase the mark-up on all Non-Medline Brand Products by (0.75%) percent. Riverside will receive a ninety (90) day written notice for any proposed mark-up changes.

In the event that Riverside merges or purchases additional entities that increase the overall dollar volume of medical/surgical supply spend, the parties agree to negotiate in good faith, adjustments to the Medline brand purchase dollar volume requirements set forth above to qualify for a rebate.

Additional fees apply depending on other distribution services as set forth in Exhibit A, Additional Services. All Capital Equipment, Non-Traditional, and Products not on a Vizient or local contract will be priced at a locally-negotiated net price. All mark-ups can be billed as a separate monthly service fee or built into the price of the item. Medline agrees to perform a quarterly review on all non-Vizient or Medline Brand items and ensure purchase orders and, if required, written agreements, are in place for each item. All price changes (increases or decreases) will be subject to the Price Change Notification process in the Vizient Agreement. Non Medline Brand items that are not on a Vizient contract will not be ordered or delivered except upon issuance of a County Purchase Order.

4. **Medline Brand Product Savings.** Medline will match prices on any other distributor's private brand/label products matched with Medline Brand like-for-like products. Products which Distributor has under contract with a GPO of which Riverside is a member, Distributor will charge GPO contract pricing unless a lower pricing agreement is agreed upon between Medline and Riverside.
5. **Rebate Payment Terms.** Medline Renewal reprocessing, Pharma purchases and Patient Plastic Utensils will be counted toward all rebate goals hereunder, but the same value of purchases will be excluded from the basis used to calculate rebate payments. If the current year's Medline Brand Product sales have declined over the previous year's Medline Brand Product sales, no rebate will be earned and paid for the current year.

Rebate will be paid on the aggregate net price. The rebate tracking period will be based on a twelve month period from the execution of this MOU. Thereafter, the rebate payment schedule will follow a calendar year and be paid on an annual basis.

Net rebates greater than \$1,000 per payment will be paid in the form of a direct payment. Net rebates less than \$1,000 per payment will be paid in the form of a credit only to Riverside's account.

Product signed as received through a proof of delivery and shown as decremented from Distributor inventory but claimed as not received by Riverside will not be counted toward the rebate volume. Riverside's account with Medline must have been current during the entire rebate period (per section below titled: Payment Terms) in order for Riverside to qualify for the rebate. Invoices in dispute, that Riverside notified Medline about in writing within thirty (30) days of invoice date, will not be counted as past due for rebate purposes.

6. **Freight Policy.**

FOB destination, risk of loss passes on delivery on all stock Products located at Provider's primary branch; for combined scheduled shipments per class of trade and order minimum schedule below. Freight charges will be added without mark-up to emergency overnight shipments and stock Products where usage is in excess of one hundred twenty-five percent (125.00%) of communicated forecast which are required to be stock transferred or shipped overnight, and to any Product that is not stocked for the Provider in their primary branch. Notwithstanding any other agreement, term or condition or transaction document between the Parties, manufacturer drop ship charges and FOB shipping point terms of distributed manufacturers (e.g., inbound freight charges, actual amount or factored, paid by Supplier) will be assessed by Supplier to the Provider, together with all other applicable freight charges. FOB destination means Riverside takes delivery of goods being shipped to it by Medline once the goods arrive at the buyer's receiving dock. Medline pays and bears the freight charges associated with the actual delivery other than what is listed here.

Class of Trade	FOB Destination Order Volume Minimum
Acute Care	\$750.00
Ambulatory Surgery Center	\$500.00
Laboratory	\$250.00
Physician Office/Clinic	\$150.00 (\$9.95 per order for orders less than \$150.00)
Post-Acute/Long Term Care	\$500.00
Home Care / Patient Home Direct	To be negotiated under separate agreement

7. **Payment Terms.** Payment terms are Net 45 days. Riverside shall pay interest of one percent (1.00%) per month on all unpaid, undisputed invoices over 45 days. Riverside agrees to partially pay all undisputed

portions of invoices within the agreed-upon terms and not hold entire invoices from payment that contain disputed line items. Medline will only accept payment by check, money order or wire transfer.

8. **Maximum Payments.** Maximum payments by Riverside to Medline under this Agreement shall not exceed \$21,807,000.00 annually including all expenses. The Riverside County is not responsible for any fees or costs incurred above or beyond the contracted amount and shall have no obligation to purchase any specified amount of services or products. Medline will have no obligation to fill orders if Riverside exceeds the maximum amount listed above. Medline and Riverside will review Riverside's expenditure rate quarterly to ensure that each understands whether demand will exceed the Maximum currently certified by Riverside County.

WITNESS the following signatures:

**COUNTY OF RIVERSIDE, a political subdivision
Of the State of California on behalf of Riverside
University Health System**

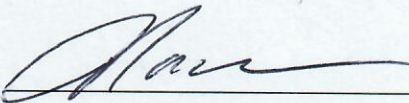
By: 

Name: Kevin Jeffries, Chairman

Title: Board of Supervisors

Date: October 22, 2019

MEDLINE INDUSTRIES, INC

By: 

Name: Marc Phillips

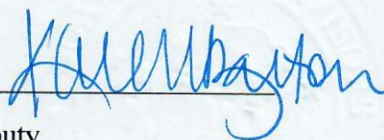
Title: Vice President, Corporate Sales

Date: 9.24, 2019

ATTEST:

Kecia Harper

Clerk of the Board

By: 

Deputy

APPROVED AS TO FORM:

Gregory P. Priamos

County Counsel

By: 

Martha Ann Knutson
Deputy County Counsel

Exhibit A
Additional Distribution Services

Choose *Additional Services* based on your mode of Distribution Services:

Bulk Distribution Services:	Fee
Bulk break down to next manufacturer packaging unit (Example: CS to BX), 1.5% for <u>each</u> break down, 3.00% max	1.50%

Product related additional fees

Hazardous Products	5.00%
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Service related additional fees

Lot sequestered inventory – Supplier will purchase, hold, and manage up to six months inventory for a single item(s), account specific	3.00%
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All Distributed Service Fees listed above are additive to existing base fee(s), unless otherwise noted not as such.