



**COUNTY OF SAN MATEO**  
Inter-Departmental Correspondence  
Health System



**Date:** February 21, 2017  
**Board Meeting Date:** March 28, 2017  
**Special Notice / Hearing:** None  
**Vote Required:** Majority

**To:** Honorable Board of Supervisors

**From:** Louise Rogers, Chief, Health System  
Chester Kunnappilly, MD, Chief Executive Officer, San Mateo Medical Center

**Subject:** Vendor Agreements with Howmedica Osteonics Corp. and Zimmer US, Inc. for Orthopedic Implants

**RECOMMENDATION:**

Adopt a resolution authorizing vendor agreements with Howmedica Osteonics Corp. and Zimmer US, Inc. for orthopedic supplies, services, and equipment during the term of January 1, 2017, through December 31, 2019, in an amount not to exceed \$3,000,000 (in aggregate), and authorizing the Purchasing Agent to enter into purchase orders under those agreements.

**BACKGROUND:**

Orthopedic implants are one of the most costly high volume expenses at the San Mateo Medical Center (SMMC). Orthopedic implant products include replacement hips, knees, and other joints, as well as trauma products that are used to repair devices previously implanted. Trauma products include external fixtures used to stabilize limbs during healing, maxillofacial prosthetics for facial trauma, and the screws and plates used for craniotomy procedures. In the past, SMMC negotiated individual agreements for a set term and pricing for these services, which at the time, allowed for savings but limited SMMC's ability to renegotiate terms without formally amending the agreement.

**DISCUSSION:**

SMMC has been investigating ways to reduce cost and still deliver high quality care. It now appears that the most flexible, low-cost way of giving SMMC access to orthopedic implants is to authorize the County Purchasing Agent or designee to enter into purchase orders under vendor agreements with two vendors—Howmedica Osteonics Corp. and Zimmer US, Inc.—during a three-year term up to a maximum amount of \$3,000,000 in aggregate. These two vendors are among the industry leaders in orthopedic implants, and giving the Purchasing Agent or designee authority to enter into purchase orders

and/or vendor agreements as needed during the three-year term has multiple benefits. First, it will allow SMMC providers the flexibility to use the products they feel are most appropriate for the particular patient, enhancing the range of options for surgeons and allowing them to take advantage of changes in implant technologies over time. Second, it will allow SMMC to track and review purchasing trends over time, permitting SMMC to renegotiate pricing lists with vendors as needed. Third, SMMC will be able to achieve some product discounts from these vendors using the proposed structure, reducing the costs for these kinds of surgical supplies. SMMC will load these arrangement details into Caduceus, SMMC's Materials Management Inventory System, so that purchase orders can be issued and the usage tracked by line item and by vendor, assisting SMMC with future negotiations to lower costs.

SMMC is also requesting that your Board waive the Request for Bid process because these vendors are the sole provider of their respective products and their products are not interchangeable. By way of example, if a patient receives an implant with one manufacturer's product and later needs a partial replacement or adjustment, that same vendor's product must be used for the most successful patient outcome. The attached Resolution, by permitting purchase orders and vendor agreements with two vendors, will help ensure that overall prices remain competitive during the three-year term of this authority given the involvement of two separate vendors.

Copies of the vendor agreements with each of the two vendors are attached to this memo, and the Resolution authorizes the Purchasing Agent or designee to enter into purchase orders under these vendor agreements that authorize purchases of surgical products. The pricing lists for each vendor, which contain sensitive business information of each vendor, are not included in the attached materials but are part of the final agreements entered into with each vendor. Finally, SMMC plans to use information about orders placed under these agreements during the first year or so in an attempt to further negotiate better pricing during years two and three of the agreements. These agreements are late due to protracted pricing negotiations with the vendors.

The resolution contains the County's standard provisions allowing amendment of the County's fiscal obligations by a maximum of \$25,000 (in aggregate).

The vendor agreements and Resolution have been reviewed and approved by County Counsel as to form.

Approval of this surgical product purchasing process contributes to the Shared Vision 2025 outcome of a Healthy Community by providing patients with timely access to products for orthopedic procedures while reducing the expense of providing these products. It is anticipated that that 100% of all deliveries of orthopedic implants and supplies will be delivered on time as scheduled.

**PERFORMANCE MEASURE:**

Measure	FY 2016-17 Actual*	FY 2017-18 Projected
Deliveries of orthopedic implants and		100%

supplies will be delivered on time as scheduled		
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\*New Measure

**FISCAL IMPACT:**

The term of this process is January 1, 2017, through December 31, 2019. The total amount of the purchase orders and vendor agreements authorized by this Resolution is not to exceed \$3,000,000 for the three-year term. Funds in the amount of \$500,000 are included in the SMMC FY 2016-17 Recommended Budget. Funds in the amount of \$1,000,000 will be included in the SMMC FY 2017-18 Recommended Budget. Similar arrangements will be made for future years.

Historically SMMC recovers approximately 25% of the cost of orthopedic implants from insurance reimbursement.

Expenses at SMMC are covered by fees for services or third-party payors whenever possible. The portion of expenses for services provided to the medically indigent or to those covered by programs that do not meet the full costs of care is covered by the County's General Fund contribution to SMMC, and are within the existing annual appropriation.