

Agenda Report

TO: CITY COUNCIL **DATE:** February 26, 2007
THROUGH: FINANCE COMMITTEE
FROM: CITY MANAGER
SUBJECT: STATUS REPORT ON THE CITY'S WORKERS
COMPENSATION PROGRAM AND AUTHORIZATION TO
EXTEND CONTRACT NUMBER 18820 WITH HAZELRIGG
RISK MANAGEMENT SERVICES FOR A PERIOD OF ONE
YEAR FOR AN AMOUNT NOT TO EXCEED \$392,950

RECOMMENDATION

It is recommended that the City Council:

- 1) Authorize an extension of contract number 18820 with Hazelrigg Risk Management Services (HRMS) for administration of workers compensation claims for the city's public safety departments (Police and Fire) for a period of one year and an amount not to exceed \$392,950; and,
- 2) To the extent that the additional contract term could be considered subject to a new competitive selection process, grant the proposed extension an exemption from the competitive selection process of the Competitive Bidding and Purchasing Ordinance, Pasadena Municipal Code Chapter 4.08, pursuant to section 4.08.049(B) contracts for which the city's best interests are served.

BACKGROUND

On April 11, 2005 the City Council authorized a one-year contract extension with HRMS to provide workers compensation claims administration for the city's public safety departments. Prior to that time all workers compensation claims were handled in-house by the Department of Finance Workers Compensation Section. The decision to contract out public safety claims was the result of an evaluation prepared for the city by Marsh Risk and Insurance Services in late 2004. The evaluation found the Workers Compensation Section significantly overburdened by the number of claims, approximately 400 per claims examiner as compared to an

industry average of 180 per examiner. Additionally the section was hampered by outdated claims management software.

In January 2006, staff reported to the City Council, on the status of HRMS' services. As reported at the time, in addition to managing all new claims related to public safety, HRMS assumed responsibility for all existing claims. To date HRMS has closed approximately 107 cases thereby reducing the City's liability. At present HRMS is administering 330 claims. The Police and Fire Departments have reported positive experience with the services provided by HRMS.

Importantly, the use of HRMS has enabled the city staff to operate more effectively as well. The city's old claims management software has been replaced with the same third-party system utilized by HRMS and the current number of cases handled in-house is 366, which is in line with industry standards.

The following tables illustrate the recent performance of the city's workers compensation program:

Fiscal Year 2006 1st – 4th Quarters (July 1, 2005 through June 30, 2006)

| | Total Open Claims | Open Claims This Period | Closed Claims This Period | Closing Ratio This Period |
|---------------|-------------------|-------------------------|---------------------------|---------------------------|
| HRMS | 310 | 172 | 291 | 169% |
| In-House City | 336 | 215 | 239 | 111% |
| Total | 646 | 387 | 530 | 137% |

Fiscal Year 2007 1st – 2nd Quarters (July 1, 2006 through December 31, 2006)

| | Total Open Claims | Open Claims This Period | Closed Claims This Period | Closing Ratio This Period |
|---------------|-------------------|-------------------------|---------------------------|---------------------------|
| HRMS | 330 | 20 | 49 | 245% |
| In-House City | 365 | 55 | 65 | 118% |
| Total | 695 | 75 | 114 | 152% |

Reduction in the number of claims being administered by both offices has been progressive since HRMS was contracted in 2004. The following table shows an analysis of the recent performance of HRMS and In-House Staff:

| City of Pasadena | Number of Employees* | Work Comp Expenses Paid | Average Cost Per Claim | Total Open Claims** |
|----------------------|----------------------|-------------------------|------------------------|---------------------|
| FY 2004 HRMS | 561 | \$3,358,019 | \$5986 | 435 |
| FY 2004 In-House | 1484 | \$2,793,672 | \$1883 | 376 |
| | | | | |
| FY 2005 HRMS | 559 | \$3,068,631 | \$5490 | 421 |
| FY 2005 In-House | 1533 | \$2,121,934 | \$1384 | 362 |
| | | | | |
| FY 2006 HRMS | 573 | \$3,241,523 | \$5657 | 310 |
| FY 2006 In-House | 1669 | \$2,603,357 | \$1560 | 336 |
| | | | | |
| FY 2006 TOTAL | 2242 | \$5,844,880 | \$2607 | 646 |

*Employee count is as of June 30th for each respective year.

**Total number of open claims at end of fiscal year.

The following table illustrates the average claim cost on a per employee basis for neighboring cities with similar numbers of employees. (This table includes Safety personnel).

| | FY2005-06 | FY2005-06 | FY 2005-06 | FY2005-06 |
|--------------|---------------------|-------------------------|------------------------|-------------------|
| Entity | Number of Employees | Work Comp Expenses Paid | Average Cost Per Claim | Total Open Claims |
| Glendale | 2168 | \$6,118,758 | \$2,822 | 648 |
| Santa Monica | 2317 | \$5,292,254 | \$2,284 | 490 |
| Santa Ana | 2065 | \$5,693,180 | \$2,757 | 621 |
| Torrance | 1747 | \$5,376,553 | \$3,078 | 750 |

Since mid 2006 a number of new procedures, based on industry "best practices" have been implemented in order to further improve claims handling, reduce caseloads and cost as well as enhance coordination with HRMS. Examples include: establishing a pool of third-party vendors to be used by both the City and HRMS; expanding training for city staff with participation from HRMS, and regular reviews of existing claims. Staff is also working to improve the quality of reports provided to the City's executive management to assist them in preventing work-related injuries. Future goals include development of a viable "return to work program" aimed at getting temporarily disabled employees back to work in a modified capacity, until they are released to regular duty.

Staff is recommending that the City Council authorize a one year extension of the contract with HRMS. The use of HRMS has had a positive impact on the City's workers compensation program. Given current staffing levels and past experience it is not reasonable to believe that in-house staff can effectively manage all of the City's workers compensation claims. Staff believes it appropriate to continue the current arrangement with HRMS for at least the next year. Moreover, the acquisition of HRMS by CorVel, a firm specializing in managed healthcare, was recently announced. While staff has been assured that this change will not impact service levels, the requested one year extension will allow time for the city to assess the impact of the change.

FISCAL IMPACT

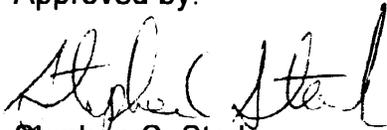
The proposed contract amount of \$392,950 represents a 2% increase over the prior term contract amount of \$385,245. Sufficient funding for the proposed contract extension is available in the Fiscal Year 2007 Operating Budget in the Department of Finance - Workers Compensation Section. As of June 30, 2006 the Workers Compensation Fund had a fund balance of \$4,878,940, which represents 40% of outstanding claims liability. Per the City's cash reserve policy, the goal is to maintain a cash reserve equal to 75% of outstanding claims.

Respectfully submitted,



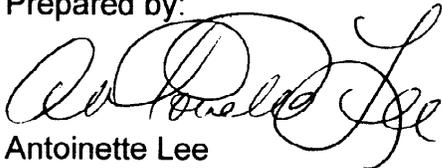
Cynthia J. Kurtz
City Manager

Approved by:



Stephen C. Stark
Director of Finance

Prepared by:



Antoinette Lee
Worker's Compensation Supervisor



Steve Mermell
Deputy Finance Director

**Disclosure Pursuant to the
City of Pasadena Taxpayer Protection Amendment of 2000
Pasadena City Charter, Article XVII**

Contractor/Organization hereby discloses its trustees, directors, partners, officers, and those with more than a 10% equity, participation, or revenue interest in Contractor/Organization, as follows:

(If printing, please print legibly. Use additional sheets as necessary.)

1. Contractor/Organization Name:

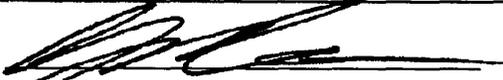
CORVEL ENTERPRISE CORP, INC. DBA HAZELRIGG RISK
MANAGEMENT SERVICES

2. Name(s) of trustees, directors, partners, officers of Contractor/Organization:

| |
|------------------------------|
| <u>V. GORDON CLEMENS SR.</u> |
| <u>V. GORDON CLEMENS JR.</u> |
| <u>DAN STARK</u> |
| <u>DAN DAVES</u> |
| |
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| |

3. Names of those with more than a 10% equity, participation or revenue interest in Contractor/Organization:

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| <u>CORVEL ENTERPRISE CORP, INC. IS A WHOLLY OWNED SUBSIDIARY OF CORVEL CORPORATION. (NASDAQ: CZUL)</u> |
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Prepared by: 

Title: VICE PRESIDENT

Date: 2/21/07

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| For office use only: Contract/Transaction No. _____ If not a contract, type of transaction: _____ |
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