

Agenda Report

TO: CITY COUNCIL
THROUGH: FINANCE COMMITTEE
DATE: April 28, 2008

FROM: CITY MANAGER

SUBJECT: AUTHORIZATION TO EXTEND CONTRACT NUMBER 18820 WITH CORVEL RISK MANAGEMENT SERVICES FOR A PERIOD OF ONE YEAR WITH TWO OPTIONAL ONE-YEAR EXTENSION PERIODS

RECOMMENDATION

It is recommended that the City Council:

- 1) Authorize a one-year extension to contract number 18820 with CorVel Corporation, for administration of workers' compensation claims for the city's public safety departments (Police and Fire) and expand the scope of services to include workers compensation bill review services for the City's entire workers compensation program in an amount not to exceed \$460,000;
- 2) Authorize the City Manager to extend the contract for up to two additional one-year periods, in the sole discretion of the City Manager and provided that the annual cost of service does not increase by an amount greater than the change in the Consumers Price Index for the LA-Riverside-Orange County area for the then most recently available twelve month period.
- 3) Grant the proposed extension including the expanded scope of services 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 with Hazelrigg Risk Management Services (HRMS) to provide workers' compensation claims administration for the city's Police and Fire claims. Prior to that time, the Department of Finance Workers' Compensation Section handled all workers'

compensation claims in-house. The decision to contract out public safety claims was the result of an evaluation prepared for the city by Marsh & McLennan Risk Companies (Marsh) and Insurance Services in late 2004. The contract was extended for one year by the City Council in January 2006 and again in February 2007, by which time Hazelrigg had been acquired by CorVel Corporation.

Since contracting with the City in 2004 Hazelrigg/CorVel has reduced the total number of open workers compensation claims for City safety personnel from 435 to 322, thereby exceeding the industry standard closure rate. This reduction in claims has placed CorVel below the industry standard of 180 claims per examiner. CorVel has worked cooperatively with the City to reduce workers compensation claims and related costs. On a quarterly basis, the company conducts on-site file reviews with both Police and Fire Department management and has provided training to the City's in-house claims staff. CorVel is a national provider of leading workers' compensation solutions to employers, insurance companies and government agencies. The company has over 35 years experience, administers 35,000 claims per year and makes over \$500 million in Third Party Administration payments per year. They specialize in applying advanced communication and information technology to improve claims administration and healthcare management. Since contracting with the City, CorVel has recovered in excess of \$1.1 million of combined litigation and subrogation costs.

In addition to recommending a continuation of CorVel's services for the City's safety departments, staff is recommending an expansion of the firm's scope of services to include bill review. Historically the City has contracted with third-party firms to review bills submitted by various workers compensation service providers to ensure the charges are appropriate. In recent years, the cost of this service has exceeded \$100,000. By incorporating bill review into CorVel's scope of services greater control and economy will be achieved. The not to exceed amount of CorVel's current contract is \$392,950 for processing safety claims. As indicated above the approximate cost of annual bill review services provided by other third-party vendors is \$100,000. Through negotiations, CorVel has agreed to provide claims administration and bill review services at a combined cost of not to exceed \$460,000 per year.

Additionally, use of a third party firm to handle a portion of the City's workers compensation claims has reduced the workload on City's in-house staff to a more manageable level. Currently, in-house staff is handling 417 claims, which are approximately 200 claims per examiner. Staff continues to work towards preventing claims through an active safety program as well as the timely management of claims that are received. Staff is currently working on a settlement and closure project with the goal of reducing in-house claims to the industry standard of 180 cases.

Recently, with the filling of a staff vacancy, the Workers Compensation section has a staff member primarily assigned to developing and implementing a Return to Work Program. The program will focus on locating positions that are compatible with employees' medical work restrictions allowing them to be placed in temporary work assignments until their physicians release them to full duty. In addition to reducing indemnity benefits paid on claims, as envisioned the program will provide meaningful work for City employees with temporary work restrictions.

The following tables provide historical information on workers compensation claims for the last four fiscal years. Information is provided for claims handled in-house as well as those referred to Corvel. It should be noted that the cost of claims for safety personnel typically exceed those for non-safety due to the difference in benefits provided pursuant to the Labor Code.

City of Pasadena	Total Work Comp Paid Out	Average Cost Per Claim	Total Open Claims**
FY 2004 TOTAL	\$6,151,691	\$3,936	811
FY 2004 Contractor	\$3,358,019	\$5,986	435
FY 2004 In-House	\$2,793,672	\$1,883	376
FY 2005 TOTAL	\$5,190,565	\$3,437	783
FY 2005 Contractor	\$3,068,631	\$5,490	421
FY 2005 In-House	\$2,121,934	\$1,384	362
FY 2006 TOTAL	\$5,844,880	\$3,609	646
FY 2006 Contractor	\$3,241,523	\$5,657	310
FY 2006 In-House	\$2,603,357	\$1,560	336
FY 2007 TOTAL	\$8,128,528	\$4,686	739
FY 2007 Contractor	\$4,663,278	\$7,509	322
FY 2007 In-House	\$3,465,250	\$1,860	417

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

The table below illustrates the average claim cost on a per employee basis for neighboring cities with similar numbers of employees. These numbers are based on an annual average and include safety and non-safety personnel.

Fiscal Year 2007					
Entity	Number of Employees	Indemnity & Medical Paid	Average Cost Per Claim	Total Open Claims	Claims as % of Employees
Pasadena	2484	\$6,147,549	\$2,475	739	30%
Glendale	2168	\$6,013,510	\$2,774	675	31%
Santa Ana	2169	\$5,132,524	\$2,366	684	32%

As mentioned previously an audit of the City's workers compensation program was performed in 2004. In March 2007 staff provided an update on the benchmarks provided in the audit covering fiscal year 2006. The following table provides a summary of the original results from the 2004 audit, the information provided in March 2007 and current information.

Three Yr Rolling Average Reporting	Marsh Audit Findings		FY 2006 as reported March 2007		FY 2007	
	Pasadena	Average	Pasadena	Average	Pasadena	Average
Average Loss Rate Per Employee*	\$1,949	\$1,405	\$1,690	\$1,483	\$1,786	\$1,184
Incident Rate+	18.63%	15.11%	16.76%	13.47%	15.8%	11.49%
Average Cost per Claim	\$10,571	\$9,295	\$10,080	\$11,025	\$11,303	\$10,679
Loss Rate Per \$100 Payroll	\$4.26	\$3.19	\$2.96	\$3.00	\$2.97	\$2.27

*Average loss rate per employee is equivalent to the average dollars spent on workers compensation claims per employee.


+Incident Rate refers to the percentage of employees that file claims in a given year.

As summarized by the table above, the City, through its partnership with CorVel, continues to make improvements in the management of workers compensation claims. Extending the proposed contract with CorVel will enable the city to make further improvements.

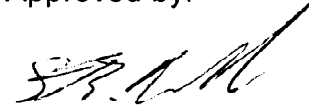
FISCAL IMPACT

Sufficient funding for the proposed contract extension is available in the Fiscal Year 2008 Operating Budget in the Department of Finance - Workers Compensation Section. As of June 30, 2007 the Workers Compensation Fund had a fund balance of \$6,192,395, which represents 36% 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,

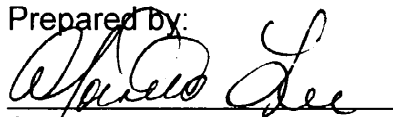

for Bernhard K. Melekian
City Manager

Approved by:



Steve Mermell
Director of Finance

Prepared by:



Antoinette Lee
Worker's Compensation Supervisor



Vic Erganian
Deputy Director of Finance

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

Contractor/Organization hereby discloses its trustees, directors, partners, officers, and those with more than 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 CORPORATION

2. Type of Entity: non-government nonprofit 501(c)(3), (4), or (6)

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

V. GORDON CLEMENS SR
V. GORDON CLEMENS JR
DAN STARCK
DAN DAVIS

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

CORVEL ENTERPRISE COMP INC IS A
WHOLLY OWNED SUBSIDIARY OF
CORVEL CORP
(NASDAQ: CRVL)

Prepared by: [Signature] SCOTTY BENTON

Title: AREA VICE PRESIDENT

Phone: 909-203-4171

Date: 4/24/08