



Agenda Report

June 20, 2011

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Director of Finance

SUBJECT: CONTRACT AWARD FOR WORKERS' COMPENSATION CLAIMS ADMINISTRATION, BILL REVIEW, AND NURSE CASE MANAGEMENT PROGRAMS FOR THE CITY'S WORKERS' COMPENSATION PROGRAM

RECOMMENDATION:

It is recommended that the City Council:

1. Authorize the City Manager to enter into a contract with *Keenan & Associates* for the administration of workers' compensation claims for the City for a period of one year effective September 1, 2011, with four optional, one-year periods in an amount not to exceed \$326,000 for year one;
2. Authorize the City Manager to enter into a contract with *Corvel Corporation* for processing the workers' compensation Bill Review Program for the City's entire claims division for a period of one year effective September 1, 2011, at an annual rate not to exceed \$500,000 with four optional, one-year periods in an amount not to exceed \$500,000 for one year and;
3. Authorize the City Manager to enter into a contract with *Medical Management Workers' Compensation Consultation* and *Isys Nurse Case Management* to administer the City's case nurse management program for the entire workers' compensation claims program for a period of one year effective September 1, 2011, with four optional, one-year periods in an amount not to exceed \$200,000 for one year;
4. Authorize the City Manager to extend the current contract with *Corvel Corporation* for 60 days with a new expiration date of August 31, 2011; and
5. To the extent that the additional contract term could be considered subject to a new competitive selection process, as it relates to the extension of the of the current Corvel Third Party Administration (TPA) contract for 60 days, 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 and;

6. Authorize staff to increase appropriations in Account number 8114-506-326200 (Other Contract Services) by \$700,000 from the workers' compensation fund balance and authorize staff to make the necessary adjustments.

EXECUTIVE SUMMARY:

To reduce costs and improve the effectiveness of the workers' compensation program, in November 2010, staff issued a request for proposal for a Third Party Administrator (TPA), bill review services and nurse case services. The City received over 20 responses. In January 2011, the City of Burbank and the City of Glendale participated in the City's RFP review process to assess if combining workers' compensation programs would be of financial benefit to the tri-cities. The proposals were evaluated by a panel consisting of a representative from Police, Fire, Water & Power, Workers' Compensation, Finance, the City of Burbank, and the City of Glendale. In March 2011, the top eight candidates were chosen for first round interviews. The panel narrowed the candidates to the top four and final interviews were conducted in April 2011. After the review process, it was determined that increasing the effectiveness of the workers' compensation program will require entering into multiple contracts.

- For TPA claims administration, the contract award decision to recommend Keenan and Associates (Keenan) to the City Council was made on May 5, 2011. To cover the transition period for the new TPA, staff recommends extending Corvel Corporation's (Corvel) contract for 60 days until implementation of the new contract with Keenan to be effective September 1, 2011.
- For bill review services, staff believes that, given their current success rate, the City should continue with Corvel.
- For nurse case management, staff believes that a more effective and thorough service will be provided by contracting with both Medical Management Workers' Compensation Consultants (MMWCC) and Isys Nurse Case Management.

The estimated cost for these services is \$1,009,825.

BACKGROUND:

In November 2004, the City of Pasadena issued a Request for Proposal (RFP) for Third Party Administrator (TPA) services to assume the administration of the Police and Fire workers' compensation claims. The City Council approved Hazelrigg Risk Management Services to handle the City's Police and Fire claims. In February 2007, Hazelrigg was acquired by Corvel Corporation (Corvel). Corvel remained the City's Police and Fire TPA for the remaining approved, three-year period with two optional extensions.

TPA Claims Administration Services

Each firm was evaluated based on a competitive selection process in which the evaluation of proposals was not limited to price. The firm's expertise and capacity were also given significant consideration in the selection process.

The competitive interview selection evaluation criterion was based on Operations & Technical Experience (5 points), Customer Service (5 points) and Cost (5 points). With seven panel members, each candidate could obtain a total of 105 possible points.

After completion of the review process, it was determined that increasing the effectiveness of the workers' compensation program will require entering into multiple contracts.

The top four candidates were ranked as follows:

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| 1. Keenan and Associates | 96 points |
| 2. Aims | 84 points |
| 3. JT2 | 80 points |
| 4. Tristar Risk Management | 80 points |

Following the initial interview, a second and final interview was conducted. The above candidates were asked to return with their respective claims staff. Specific questions were asked of each candidate regarding claims handling practices, labor code, police and fire presumptions, and what customer service means to them. Based on this final interview, the seven panel members were asked to give one point for each of their top two choices.

The results were as follows:

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| 1. Keenan and Associates | 7 points |
| 2. JT2 | 3 points |
| 3. Tristar | 3 points |
| 4. Aims | 1 point |

Although Keenan and Associates was not the lowest bidder, the firm was chosen based on their experience in administering workers' compensation claims in California for over 35 years. Keenan has contracted with more than 25 cities, counties, and transit agencies, and their experience servicing public agencies, municipalities, PERS retirees, and safety claims is anticipated to assist in achieving significant cost savings for the City's Workers' Compensation program. Keenan's computer system allows workers' compensation staff to obtain "real-time" reports through secure access on Keenan's website. These reports show total number of open claims, cost per claim, closed claims, and litigation reports. Keenan has web-based training specifically designed for police, fire, emergency management, public works, parks and recreation, clerks, and

management employees. Keenan's experience in the workers' compensation industry and its advanced claims system is anticipated to show marked improvement over the City's current workers' compensation system.

Additionally, at no additional cost, Keenan and Associates offers Cal-OSHA safety training that was not offered by the other TPA candidates. Their web-based system offers direct access to claims information, Cal-OSHA reports, and training information and is designed specifically for public agency employees. More than 30 courses are currently available. Courses are offered in the following five workplace categories:

- Police, Fire and EMS
- Public Works and Utilities
- Parks and Recreation
- Transportation Authority
- Administrative, Office, and Management

Each course is interactive and self-paced, and progress is tracked and recorded in a learning management system. City employees can print their own completion certificates while the compliance records are automatically updated. Keenan's system can be uploaded and courses can be administered and specifically designed for and/or by the City. This learning system is currently used by 336 agencies including the Los Angeles County Sanitation Districts, the City of Palm Springs and the City of Visalia.

Keenan examiners are expected to receive a claims inventory of approximately 300 claim files or roughly 150 claims per examiner. This action will leave an inventory of approximately 233, non-safety claim files for the City's two examiners.

Bill Review Services

Bill review costs are separate from the base administration costs of handling claim files. In October 2008, Corvel was granted processing rights for all bill reviews on City claims. Corvel has averaged a monthly bill review reduction of 80 percent since the inception of the Pasadena program. While bill review fees vary based on the number of medical bills received from physicians each month, Corvel continues to provide significant savings for the City.

In the past three years, the City's bill review costs have not exceeded \$500,000. In FY 2009, the City paid \$316,000 in bill review fees. In FY2010, the City paid \$451,000 and it is anticipated to pay less than \$500,000 for FY2011. Given Corvel's bill review success and its selection through the competitive bidding process, staff recommends entering into a new contract with Corvel for bill review services only, at an estimated cost not to exceed \$500,000 for FY2012.

Nurse Case Management Services

It is recommended that the City hire two nurse case management companies to assist Keenan staff with claims management; Medical Management Workers' Compensation Consultants (MMWCC) and Isys Nurse Case Management. The nurse case management program for these two firms was determined to be less costly than other TPA programs. Hiring both companies will provide a larger pool of nurse case managers who are available to assist injured employees in areas such as obtaining appropriate medical care, providing answers to employee questions regarding their treatment, providing the claims examiners with review and triage of new injury claims, providing medical terminology clarification, assisting in the reduction of pharmacy costs for non-industrial claims, overseeing medical care, reviewing medical records to ensure appropriateness of medical treatment, and acting as medical liaisons between the physicians and claims staff.

Both firms have strengths in different areas that will benefit the overall program. MMWCC, offers a stronger and more direct approach to handling claims that has proven helpful in many cases filed with the City. MMWCC has also been successful with handling more severely injured and less than cooperative employees to ensure medical treatment is promptly and efficiently provided. Isys Nurse Case Management offers a softer approach to case nurse management. Both companies are experienced with handling public entity claims with numerous cities in the Southern California region.

Nurse case management is a separate cost from base administration. Both companies propose a fee of \$85 per hour, which represents the most cost effective proposals provided in the City's RFP process. Keenan's claims staff along with the City's claim staff will work closely with the nurse case managers to effectively manage all Pasadena claims.

New contracts for administration, bill review, and nurse case management are anticipated to begin on September 1, 2011. Selected candidates require 30 days to obtain the City's claims data and convert the information to their systems. Data transition is slated for August 1, 2011. Consequently, it is recommended that an interim contract with Corvel, the City's current TPA, be extended until August 31, 2011, the anticipated completion date for the conversion.

COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

FISCAL IMPACT:

Maximum costs under the terms of the proposed contract with Keenan and Associates are listed below.

Base Year Fee	\$ 326,000
Optional Year 1	\$ 326,000
Optional Year 2	\$ 326,000
Optional Year 3	\$ 339,000
Optional Year 4	\$ 352,500

Bill review and nurse case management fees represent the variable portions of the contract. Bill review fees estimated not to exceed \$500,000. Nurse case management fees estimated not to exceed \$200,000.

The cost to extend Corvel's third party administration contract of the City's Workers' Compensation program is estimated to be \$65,324. The annual contracted cost of the workers' compensation program will be \$1,009,825 broken out as follows:

Administration - Fixed Fee (9 Months)	\$ 244,500
Corvel Extension – Fixed Fee (3 Months)	65,325
Bill Review - Variable Fee	500,000
Nurse Case Management – Variable Fee	<u>200,000</u>
	<u>\$1,009,825</u>

Funding for this action will require an increase in the appropriation in the amount of \$700,000 in account 8114-506-32600, Other Contract Services, and an adjustment to the workers' compensation fund balance for the same amount. The remaining balance will be funded by utilizing the recommended budgeted appropriations for FY 2012 in the amount of \$309,825.00 from account 8114-506-32600, Other Contract Services.

Respectfully submitted,



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for MICHAEL J. BECK
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