

Agenda Report

TO: CITY COUNCIL **DATE:** MARCH 28, 2005
THROUGH: FINANCE COMMITTEE
FROM: CITY MANAGER
SUBJECT: AWARD CONTRACT TO HAZELRIGG RISK MANAGEMENT SERVICES FOR WORKERS' COMPENSATION CLAIMS ADMINISTRATION FOR THE POLICE AND FIRE DEPARTMENTS IN THE AMOUNT OF \$375,000

RECOMMENDATION

It is recommended that the City Council:

- 1) Authorize the City Manager to enter into a contract with Hazelrigg Risk Management Services in an amount not to exceed \$375,000 for administration of workers' compensation claims for the Police and Fire Departments;
- 2) Approve a journal voucher appropriating \$375,000 to the Department of Finance budget account number 8114-506-326200 from the Workers' Compensation Fund unappropriated fund balance.

BACKGROUND

In July 2004, the City contracted with Marsh Risk and Insurance Services to conduct an evaluation of the City's workers' compensation operations. The scope of the review included an assessment of the use of technology, documentation, procedures, workload distribution, claims processing, litigation, training and other areas within the Workers' Compensation section.

The results of the Marsh assessment included a number of recommendations for improvements in the operations and management of the Workers' Compensation section. The recommendations were presented to the Finance Committee on August 23, 2004. One of the recommendations included the preparation and circulation of a Request for Proposal (RFP) for Third Party Administrative (TPA) services to assume responsibility for administering some or all of the City's workers' compensation claims. An RFP for TPA services was released in November 2004, requesting proposals for a program to assume administration services for claims based on three scenarios: public safety (Police and Fire)

claims only, all claims except public safety, and all workers' compensation claims in the City.

Evaluation of the responses included an assessment of the most cost effective and beneficial allocation of claims administration responsibilities. It has been determined that the City would recognize the most significant benefit by assigning responsibility for the Police and Fire Department claims to the third party administrator. Claims for these two departments represent over 50% of the City's total claims, as well as the largest exposure for ongoing indemnity and future medical costs. The unique professional resources offered by a third party administrator are especially suited to the management of the complex claims arising from work-related injuries experienced by public safety employees.

Six firms responded to the RFP and the responses were evaluated by a team of City staff from several departments, including Police, Fire, Public Works, Human Resources and Finance. The three top ranked firms were invited to make presentations to the evaluation team. The results of the evaluation are included as Attachment A to this document.

Hazelrigg Risk Management Services has been selected as the most qualified firm (based on responses to the RFP) to assume responsibility for administration of the workers' compensation claims for the Police and Fire Departments. Hazelrigg's response indicates that the firm has a distinctive record of success handling claims related to industrial injuries sustained by public safety personnel. The response from Hazelrigg included a comprehensive solution to many of the recommendations included in the report from Marsh Risk and Insurance Services. Hazelrigg's proposal also incorporated a complete transition plan for assignment of the public safety claims, including audit of the claims, transfer of data and notification and training of Police and Fire personnel of any adjustments related to the transition. In addition, Hazelrigg has proposed an inclusive reporting process to the City including on-line access to claims information as well as monthly, quarterly and annual reporting on the status of claims. In addition, the City will retain control of all reserves, settlement authority, and final resolution of claims that are administered by Hazelrigg.

The improved efficiency of claims administration is expected to result in cost savings to the City, although the savings are difficult to quantify at this time. Hazelrigg's administration may result in the reduction of indemnity costs, expedited return-to-work programs and improved management of litigation costs. In addition, the City is proposing to partner with Hazelrigg to access the Valley Oaks claims administration software application instead of upgrading the outdated version of the GenSource claims administration system that the City is currently using. Preliminary estimate of the cost to upgrade GenSource is approximately \$76,000 plus annual maintenance.

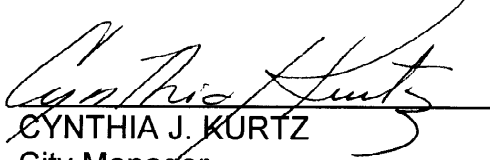
City staff will continue to administer claims for all other City departments. The transfer of public safety claims will reduce to approximate 180-185 the number of claims handled by each City claims administrator. The workers' compensation

industry averages for claims handled per administrator is approximately 150 to 175. As a result of the transfer of claims related to public safety personnel, the ability of City staff to administer the remaining claims is expected to improve, possibly resulting in additional cost savings through improved claims management.

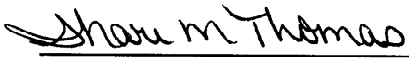
FISCAL IMPACT

Funds are available for this contract in the Workers' Compensation Fund. The cash balance in the Fund as of February 28, 2005, was \$4.63 million.

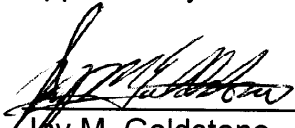
Respectfully submitted,


CYNTHIA J. KURTZ
City Manager

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Approved by:


Jay M. Goldstone
Director of Finance

Attachment A

Responses to RFP for Workers' Compensation TPA Services

Criteria Ranking

Criteria	Hazelrigg	Tristar	Buckeye	Cambridge (computed)	Intercare	Keenan & Associates
Experience and past successes	55	50	30	35	50	55
Cost of service	18	12	15	20	10	Not included
Responsiveness to RFP scenarios	10	10	5	5	10	8
Local Pasadena business Small/micro business preference	0	0	0	5	5	0
	0	0	0	0	0	0
Total	83	72	50	65	75	63