



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Award of a Three-year Contract for Third Party Worker's Compensation Claim Administration Services (F18-289)

REPORT IN BRIEF

Approval is requested to award a three-year contract, not to exceed \$1,313,023 to Keenan & Associates of Oakland to provide workers' compensation claims administration services. Approval is also requested to authorize the City Manager to renew the contract for an additional two one-year periods depending on the services, pricing, and available funding.

EXISTING POLICY

Pursuant to Chapter 2.08 of the Sunnyvale Municipal Code, contracts for this type of service are awarded pursuant to a Request for Proposals (RFP) best value process, unless otherwise exempt from the competitive bidding process. Additionally, City Council approval is required for the procurement of goods and/or services exceeding \$100,000 in any one transaction.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(5) in that it is a governmental organizational or administrative activity that will not result in direct or indirect changes in the environment

BACKGROUND AND DISCUSSION

The City utilizes a state-licensed third party administrator (TPA) to manage workers' compensation claims of injured workers through a contract managed by the Department of Human Resources. Workers' compensation administration services consist of four components:

- Claims Administration - The largest component of the services provided, this includes the contracted cost for day-to-day handling of workers' compensation claims, and making disability payments and payments to doctors.
- Utilization Review - This is the assessment of the medical necessity of any medical treatment requested on the workers' compensation claim.
- Nurse Case Management - Services provided by nurses both telephonically and in the field to coordinate care for the injured worker. The Nurse Case Manager communicates with both workers and medical providers.
- Bill Review - Review of medical bills to confirm that doctors are charging only for authorized services and to verify that they are coded properly. Where necessary, coding is changed to reduce the bill to the State fee schedule amount.

The City has contracted with the current vendor, Acclamation Insurance Management Services (AIMS), since 2015 as the result of a previous Request for Proposal (RFP) process. The current three-year contract with AIMS, in the amount of \$935,316, was awarded June 2015 (RTC No. 15-0538). One additional six-month renewal period increased the contract by \$161,483 to a total of \$1,096,799 through December 31, 2018. The contracted cost is only for claims administration.

The costs associated with the remaining three components of bill review, nurse case management and utilization review are handled through the actual workers' compensation claims to ensure accurate cost accounting and for reimbursement purposes if the City's self-insured retention is exceeded. The current vendor handles claims administration only while it subcontracts to handle bill review, utilization review, and nurse case management. This practice will continue under this agreement.

A Request for Proposals was issued on July 10, 2018 and directly distributed to 32 potential proposers. In addition, the RFP was posted on the City's DemandStar public procurement network. On July 27, 2018 five proposals were received.

The proposals were evaluated by a committee including members of the Departments of Human Resources, Public Safety and the City Attorney's Office. Each component of workers' compensation administration services was evaluated separately to determine which proposers offered the best solutions for the City. Four firms were selected for interview.

Based on evaluation of the written proposals and the subsequent interviews, the evaluation committee concluded that the City's needs would be best met through Keenan & Associates (Keenan). Keenan was selected based on its experience working with California public entities, track record for managing claim closure programs, commitment to early return to work efforts, controlled provider network, and focus on reducing workers' compensation costs. Reference checks were performed by the Department of Human Resources, which confirmed Keenan's effectiveness in providing high-quality service.

After negotiation, the final contract with Keenan & Associates consists of the following components:

- Three-year claim administration services - \$1,313,023
- Account Establishment, data conversion and transfer - not to exceed \$40,000

To ensure an uninterrupted transition from the current vendor to Keenan, it is industry practice to begin the process of account establishment 60-90 days before a new TPA facilitates the day-to-day activities of managing claims. It is expected that the contract with Keenan for claims administration will be executed shortly after Council award. As the AIMS contract expires on December 31, 2018 Keenan will need to begin accessing the file data, uploading electronic files for each case and establishing the City's access portal and user access dashboard in advance of the claims administration start date. Beginning January 1, 2019, Keenan will begin a comprehensive review of current claims with the intention of closing as many active claims as possible to establish an initial contract intake file amount, which will determine the annual contract administrative fee. As an added performance management element, Keenan will be incentivized with a performance management bonus of \$20,000 if it closes at least 20% of currently open and active claims. While an incentive

bonus is not typically offered in public contracts, it is to the City's advantage to close open claims expeditiously and, if the performance management percentage is met by December 31, 2019, the forecasted savings are approximately \$700,000 through avoided costs over the three-year life of the contract.

FISCAL IMPACT

The three-year contract amount with Keenan & Associates for claims administration services is \$1,313,023. This increase of \$201,224 (18%) over the prior negotiated contract is reflective of a continued strong California economy since 2015, service feature add-ons that include on-line compliance training course through Keenan's '*SafePersonnel*', loss control services, and Opioid abuse reduction program.

Costs for claims administration are budgeted in the Workers' Compensation Sub-Fund of the Employee Benefits Fund. Funding is provided through transfers from all other funds where personnel are budgeted; however, approximately 95% comes from the General Fund, which has not only the most employees, but all the safety employees that comprise the largest share of cost for claims due to the dangerous and physical nature of the work.

For the first six months of the contract (FY 2018/19), the increase in claims administration costs will be absorbed by the Workers' Compensation Sub-Fund. During the FY 2019/20 budget cycle, the budget will be adjusted accordingly for the remaining years of the contract. Using this contract as a new base, it is anticipated to add approximately \$3 million over twenty years. However, this may be offset through the closing of active claims, which will lower cost of claims and lower the City's long-term claims liability.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

RECOMMENDATION

1) Award a three-year contract in substantially the same form as Attachment 1 to the report in the amount not to exceed \$1,313,023 to Keenan & Associates to provide workers' compensation claims administration services and authorize the City Manager to execute the contract when all necessary conditions have been met, 2) Authorize the City Manager to amend the contract for the performance management bonus, and 3) delegate the authority to the City Manager to renew the contract for two additional one-year periods, if services and pricing remain acceptable to the City.

Prepared by: Gregory S. Card, Purchasing Officer
Reviewed by: Timothy J. Kirby, Director of Finance
Reviewed by: Tina Murphy, Director of Human Resources
Reviewed by: Teri Silva, Assistant City Manager
Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. Draft Consultant Services Agreement