



DATE: January 16, 2018

CATEGORY: Consent

DEPT.: Finance and Administrative Services

TITLE: **Authorize Contract for Workers' Compensation Third-Party Claims Administration Services**

RECOMMENDATION

Authorize the City Manager to execute a contract with York Risk Services Group for Workers' Compensation Third-Party Administration claims service for a five-year term, from July 1, 2018 through June 30, 2023. The total five-year contract cost is not to exceed \$751,225.05

BACKGROUND

The City's Workers' Compensation (WC) Program is self-insured and utilizes the services of a Third-Party Administration (TPA) for WC claims administration services. The TPA administers WC benefits for industrially injured employees as required by the California Labor Code, including investigation, medical cost containment, adjustment, and resolution of litigated and nonlitigated claims. The TPA will manage approximately 80 new claims per year and assume responsibility for 136 open pending WC claims.

The City's last Request for Proposals (RFP) for claims administration services was in 2010 and the TPA selected at that time was Athens Administrators (ATHENS). ATHENS was awarded a five-year contract and an additional three-year extension, as approved by the City Council. The current contract with ATHENS for TPA services expires on June 30, 2018.

ANALYSIS

It had been eight years since the City last solicited services for claims administration and based on increased Workers' Compensation regulatory requirements and an increase in quality TPAs within the market, an RFP for TPA services was issued on August 7, 2017, and notices were sent directly to 21 firms. In addition, advertisement soliciting proposals was listed on the City's website and the *San Jose Post Record*.

A nonmandatory preproposal conference was held on August 16, 2017. Representatives from six firms attended the conference and, on September 15, 2017, the City received eight proposals. A selection panel composed of the City's Risk Manager, Risk Analyst, Police Lieutenant, and Deputy Fire Chief, evaluated written proposals according to predetermined selection criteria. The selection criteria included: qualifications of the firm, qualifications of key project staff, demonstrated understanding of the project as evidenced by the proposer's work plans, and cost.

Cost alone is not an appropriate criterion for this type of professional service. The ability to effectively control WC costs is driven by the technical experience, quality, stability, and complement of the examining staff. In addition, a versatile information system is required to produce the reports and analysis to identify loss-control issues, payments, and processing improvements. The TPA must have sound financial controls in place to support banking arrangements and prevent overpayments or duplicate payments in the processing of approximately 414 transactions per month.

Based on the evaluation of the proposals received, ATHENS, LWP Claims Solutions, York Risk Services Group (YORK), and TRISTAR Risk Management, were selected as finalists. On October 17, 2017 and October 18, 2017, the panel members conducted on-site interviews and tours of the finalists' local offices. Based on their performance in both the interview and proposal process, YORK has been selected as the recommended firm for the contract award.

YORK was established in 1961 and employs more than 900 employees in California and 5,000 employees nationally. YORK is privately owned and headquartered in Parsippany, New Jersey. They have both public entity and private clients with experience working with a unionized work force. YORK's work plan demonstrates a clear understanding of the project requirements and the proposed cost is competitive among the finalists based on the City's required program elements. YORK also uses a claims administration system that exceeds the City's reporting requirements. The system is the latest version of proprietary Risk Management Information System software developed for the administration of California self-insured WC claims.

The selection committee contacted YORK's client references. These public agency clients have similar unionized environments and claims experience. YORK has maintained 2- to 19-year business relationships with these clients and had successfully achieved loss cost reductions in each of their WC programs. The clients were highly satisfied with the quality of the claims services and management responsiveness to

business concerns. YORK clients include the cities of Redwood City, Palo Alto, and Milpitas, among others.

The process of selecting, transitioning, and set up to a new TPA is extensive. Therefore, it is recommended the contract be awarded for a minimum five-year period, with the possibility of extensions. The RFP process was initiated in the summer with this recommendation being brought to Council in January to allow for sufficient time to transition and set up for the new TPA. The City received eight proposals and believes the RFP process has resulted in the best recommendation for a TPA.

Although WC insurance rates have improved in California in recent years, self-insuring the WC program continues to be the most cost-effective approach. Based on the City's loss experience, it is unlikely that the City would obtain substantially lower premium rates at this time and safety professionals would be excluded. The alternative to join a Workers' Compensation pool was reviewed in 2009, 2010, and in 2017. This option is not as cost-effective as the current option proposed.

FISCAL IMPACT

The funding for TPA services is included in the Workers' Compensation Fund annual budget. The contract cost for Fiscal Year 2018-19 is not to exceed \$146,016 in claims administration fee and \$5,000 in claims conversion fee; a 2.5 percent increase is proposed in subsequent Fiscal Years 2019-20 (\$144,541.07), 2020-21 (\$148,154.60), 2021-22 (\$151,858.46), and 2022-23 (\$155,654.92), resulting in a total five-year contract cost not to exceed \$751,225.05. The proposed costs are lower than the costs currently incurred for TPA services and lower than the firm ranking second in the proposal and interview process.

ALTERNATIVES

The alternatives are:

- Reject all responses and issue a new RFP for services.
- Reject the recommended TPA and select the second-ranking TPA.
- Join a Workers' Compensation pool.
- Fully insure the program.

PUBLIC NOTICING – Agenda positing.

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