

OFFICE OF THE CITY CLERK
2007 JUL 10 PM 1:52

CITY OF OAKLAND

AGENDA REPORT

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Finance and Management Agency
DATE: July 10, 2007

RE: **Resolution Authorizing The City To Enter An Agreement With JT2 Integrated Resources For The Provision Of Workers' Compensation Administration Services For A Total Contract Amount Of \$2,059,560 For Contract Year 2007-08 And For A Total Contract Amount Of \$2,162,538 For Contract Year 2008-09 With An Option To Extend The Agreement For Two Additional Two-Year Terms For An Amount Not To Exceed The Prior Year's Contract Amount Adjusted By The Prior Year's Consumer Price Index Not To Exceed A Contract Amount Increase Of 5% For Each Contract Year for Contract Years 2009 through 2013**

SUMMARY

The State of California requires all employers to provide Workers' Compensation benefits to employees who become injured or ill as a result of their work. The City of Oakland is self-insured for the provision of these Workers' Compensation benefits. Since 1977, the City has utilized the services of licensed Third Party Administration (TPA) firms for the delivery of Workers' Compensation benefits. The current TPA contract, with JT2 INTEGRATED RESOURCES, expires August 31, 2007. Staff has recently completed the Request for Proposal (RFP) process for Workers' Compensation Third Party Claims Administration Services.

Staff recommends that Council authorize the City Administrator to enter into a two-year contract for Workers' Compensation TPA Services with JT2 INTEGRATED RESOURCES (JT2). JT2 submitted the most qualified and cost effective bid and scored highest in the review of qualifications process.

Staff further recommends that Council authorize the City Administrator to exercise two options to extend this contract for two additional years should the recommended contractor demonstrate acceptable performance in the delivery of the contracted services. Acceptable services will be determined by negotiated performance measures and an independent performance audit commissioned by the Finance and Management Agency – Risk Management Division at the end of each contract year.

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FISCAL IMPACT

The proposed contract with JT2 would provide Workers' Compensation Third Party Administration (TPA) Services for Contract Year 2007-08 in an amount not to exceed \$2,059,560 (which includes the base contract fee of \$1,999,572 plus the 3% Contract Compliance Fee) and for Contract Year 2008-09 in an amount not to exceed \$2,162,538 (which includes the base contract fee of \$2,099,551 plus the 3% Contract Compliance Fee). Therefore, the two-year contract amount for Contract Years 2007-09 would not exceed \$4,222,098. The funding for this contract is contained within Fund 1150 – Workers' Compensation Insurance Claims Fund, and no additional budgetary adjustment is necessary. The contract year for this contract runs from September 1 through August 31.

Extension of this contract for two additional two-year terms, upon satisfactory performance, would be in amounts not to exceed a 5% consumer price index adjustment over the prior year's contract amount, plus a 3% contract compliance fee for Contract Years 2009-2011 and for Contract Years 2011-2013.

These costs are inclusive of all required and specified program elements with the exception of Managed Care Services, Bill Review and Preferred Provider Utilization Review services which are charged against individual claims as allocated services. Note that this amount does not include Workers' Compensation benefits costs, as the costs of benefits are paid to employees on behalf of the City by the TPA, rather than to the TPA for their administration services.

BACKGROUND

All employers in the State of California are mandated to provide Workers' Compensation (WC) benefits to its employees. The administration of workers' compensation benefits by public agencies is accomplished by one of three systems: insured, self-insured/self-administered, or self-insured/third-party administered. The City of Oakland is permissibly self-insured by the State of California and managed its workers' compensation administration in-house until 1977, as did many other public agencies. Since Fiscal Year 1977-78, the City of Oakland has used the option of a third party administrator for claims management.

In 2001, the contract for Workers' Compensation TPA Services was awarded to JT2 Integrated Resources. In 2003 and 2005, the City exercised its option to extend the contract with this team based on acceptable services. No additional contract extensions are available under the 2001 agreement. The current contract expires August 31, 2007.

The City conducted a RFP process seeking the most qualified vendor to provide these services beginning September 1, 2007. On March 30, 2007, the RFP for Workers' Compensation TPA Services was released. The RFP process sought to determine the most overall qualified TPA to

service the needs of the City in its efforts to achieve the Council's goal of reducing Workers' Compensation Program costs. The services sought included, but were not limited to, certain enhancements of traditional Workers' Compensation Claims Administration services such as:

- Triage, takeover and management of all existing Workers' Compensation claims with minimum interruption of services and ongoing provision of benefits;
- Comprehensive Claims Administration for all new and existing Workers' Compensation claims filed by City of Oakland employees;
- Early Intervention and Transitional Work Program services for all occupational (and optionally non-occupational) disabilities;
- Utilization Review and Managed Care services for all occupational disabilities;
- Managed Care Services for referred occupational disabilities;
- Bill Review services for all invoiced medical services, including therapeutic and prescription services related to all occupational disabilities – TPA is to handle the entire Bill Review package with no break-out to sub-contracting entities;
- Preferred provider network option (PPO) participation for all medical services required to cure or relieve any/all occupational disabilities;
- Telephonic / Electronic Claim Reporting capabilities for all City departments;
- Onsite Database Information and Reporting access capabilities for certain City locations;
- Onsite Non-technical Service Personnel to act as liaison between designated City departments and selected TPA – to assist department personnel with timely and accurate completion of required forms, obtain necessary information to properly process claims, and assist department personnel and/or injured employees in obtaining answers to pertinent questions, etc.;
- Provide City departments and injured employees toll-free access to encourage and promote initial and ongoing communications;

In preparation for the RFP process, Risk Management utilized the services of Hardy Insurance Consultants, a local risk management consultation firm that specializes in Workers' Compensation Third Party Administration RFP Selection Processes. Securing the consultant as a process facilitator, the City was able to ensure a balanced and equitable process was utilized in the solicitation and selection phases of this process.

On March 30, 2007, the Finance and Management Agency – Risk Management Division issued a Request for Proposal for the provision of Workers' Compensation Program Services. Invitations to participate in the process were sent to twenty-one (21) Workers' Compensation Third Party Administration firms who had previously expressed interest in participating in the RFP process or were recommended by our process consultant.

The City also advertised in local papers and made the RFP document available on the City's website. Hard-copies of the RFP were made available to all parties requesting such. A

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mandatory Bidders' Conference was held on April 12, 2007. Thirteen (13) TPAs attended the Bidders' Conference. In order to accommodate specified timelines in the City's Professional Services Program, the published submission deadline was set for May 11, 2007.

At the specified closing time on May 11th, a total of five proposals were received from the interested firms. To date, no other proposals have been received. Of the five proposals received, four were found to be qualified as they met the minimum requirements outlined in the RFP and cover letter. All qualified bidders participated throughout the review process which included staff review of the submitted proposal documents and oral presentations / interviews. The oral interview panel consisted of two City representatives and two external representatives, including:

- Personnel representative from Oakland Fire Department;
- Staff representative from Finance and Management Agency, Risk Management;
- Human Resources Director from City of Santa Clara, CA; and
- Vice President, Insurance Services from Alliant Insurance Services, San Francisco, CA.

Oral Presentations/Interviews were conducted on June 5, 2007. Questions were developed by the consultant for use by the interview panel and the results were recorded. Following the oral presentations, the panel made recommendations identifying the top two firms for the City's consideration. These two firms were: JT2 Integrated Resources and Sedgwick Claims Management, Inc.

Based on the review process, the vendors were scored as indicated below. A detailed Qualifications Matrix is provided as Attachment A for further information.

<u>Third Party Administrator</u>	<u>Proposal Review Score</u>	<u>Fixed Two-Year TPA Administration Cost</u>	<u>Fixed Transition Cost</u>	<u>Overall Ranking</u>
Sedgwick Claims Management	87	\$5,632,032	\$0	1
JT2 Integrated Resources	85	\$4,099,123	\$0	2
Claims Management, Inc.	82	\$3,570,000	\$7,500	3
TriStar Risk Management	83	\$5,087,500	\$8,800	4
Hazeltrigg Risk Management Services*	42	\$8,750,000	\$25,000	5

* Note this vendor was disqualified during the initial review process as not being responsive to RFP requirements.

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KEY ISSUES AND IMPACTS

State law mandates and City Memorandums of Understanding (MOUs) require that the City provide workers' compensation benefits to all City employees. The City is permissibly self-insured by the State of California. Failure to comply with State laws pursuant to the California Labor Code can expose the City to significant fines and penalties as well as loss of its self-insurance certification. Without authority to self-insure, the City would have to purchase premium-based Workers' Compensation Insurance. It is estimated that the premiums for first-dollar coverage Workers' Compensation Insurance would cost between \$30 to \$35 million and would far exceed current annual workers' compensation costs.

To self-administer the workers' compensation program internally, the level of staffing necessary would equate to approximately 20.2 Full-Time Equivalent (FTE) positions, or approximately \$2.25 million per year in salary and benefits alone. Additional costs that would need to be factored in to maintain this operation in-house include ongoing training and certification of staff, errors and omissions insurance, facilities and equipment acquisitions and maintenance, a specialized computer system and licensing, etc. Ultimately, securing the same services from a qualified vendor is more cost effective and removes much of the liability associated with Claims Administration from the City. It also allows the City to benefit from the pool of resources brought to the table by qualified TPAs that can ultimately be made available to the City's Disability Management Team.

Matters that should be considered in the selection of a Workers' Compensation TPA as a Disability Management Team member include the firm's ability to:

- Provide timely response to client needs,
- Present new ideas and innovations related to claims administration and disability management, and
- Work collaboratively with other vendors that make up the overall Disability Management team.

While each vendor presented their proposal for addressing the City's program objectives, staff believes that the recommended firm is best prepared to contribute valuable expertise and experience to the team, while maintaining the fluidity and flexibility necessary for the program adjustments that will take place as the Disability Management program matures.

SUSTAINABLE OPPORTUNITIES

There are no economic, environmental or social equity opportunities associated with this report.

DISABILITY AND SENIOR CITIZEN ACCESS

The issues addressed in this report directly pertain to disability issues, as they may impact City

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employee's who become injured or ill on-the-job. The legal, efficient and competent administration of a workers' compensation claims dove-tails into the City's collateral obligations, as an employer, pursuant to the Federal Housing and Employment Act (FEHA), the Americans with Disabilities Act (ADA) and worker-related disability retirement issues.

JT2 has best demonstrated the ability to assist the City in compliance with the regulations across the multitude of forums which may be intersected by a workers' compensation claim.

RECOMMENDATION(S) AND RATIONALE

Based on the results of the review process summarized above, staff recommends that the Council authorize the City to enter into an agreement with JT2 Integrated Resources for the provision of Workers' Compensation Administration Services for a total contract amount of \$2,059,560 for Contract Year 2007-08 and for a total a contract amount of \$2,162,538 for Contract Year 2008-09 with an option to extend the agreement for two additional two-year terms for an amount not to exceed the prior year's contract amount adjusted by the prior year's Consumer Price Index not to exceed a contract amount increase of 5% for each contract year for Contract Years 2009 through 2013.

Even though the overall scoring ranked JT2 as second most qualified for the contract services, staff recommends JT2 over the Sedgwick Claims Management for a number of reasons.

1. JT2's proposed two-year costs are nearly \$1.6 million less than those proposed by Sedgwick Claims Management.
2. Both firms provided documented evidence of their ability to reduce overall program costs based on the past year experience. While Sedgwick has a depth of resources to draw from being a national firm, JT2 has demonstrated their ability to flex and grow with the City's program as changes presented themselves.
3. JT2 has consistently met or exceeded the performance measure standards established under the prior contract and has consistently impressed the independent auditors with the quality of their claims management practices.
4. JT2 has historical knowledge of the City and its internal operations. Past experience has shown that any transition period from one TPA to another usually results in claims management difficulties for the first 9 to 12 months of the transition period. These difficulties usually result in penalties being imposed on the City due to late claim payments or other violations of the state labor code.
5. Changing from one TPA to another will not solve perceived program problems. It is better to analyze the program while there is stability to test where corrective action

- may be necessary.
6. JT2 has demonstrated that they have a vested interest in working with the City of Oakland as their "flagship" account and continue to commit to strategically change and adjust with the City's needs as the program prepares to go to the next level of Claims Management.

Significant changes proposed under the upcoming contract include the requirements to:

- Maintain adjuster case loads at 125 claims per adjuster. Studies have shown that where adjusters have a lower caseload, they are able to provide more detailed and direct claims management and cost containment services. As such, the City has directed the caseload to be reduced from 175 to 125 per adjuster.
- Perform a complete file review focusing on closure potential for all open claims. JT2 has proposed to undergo this review within the first 90 days of the contract. Staff will direct the TPA to provide critical consideration for closing the "stale" claims regardless of their potential for activity in the future.
- Participate in a Risk Management Program Review to determine areas in the overall Risk Management Program where strategic program changes could benefit the City.
- Participate in at least three different annual reviews, including annual actuarial analysis, annual claims audit and annual utilization review/bill review audit. These three review processes will allow the City an opportunity to critically review the performance of the TPA and make any necessary adjustments as recommendations are brought to light by the various review consultants.
- Participate in semi-monthly financial variance meetings to closely monitor fluctuations in program costs and determine where tighter controls or strategic program changes are needed as cost containment strategies. This is in addition to the monthly and quarterly claims review meetings already provided at the department level.
- Provide early intervention/return to work services as well as onsite non-technical personnel services, to act as a liaison between designated City departments and the TPA.
- Transition to a paperless system by the fourth quarter of 2007. This will ensure that all claim documentation is digitized and maintained electronically, making them available to all authorized parties in a timely and efficient manner.
- Participate in the development of an early "interactive process" program that will

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streamline the timeframe for the City to activate and fully comply with its FEHA/ADA and FMLA programs.

JT2 Integrated Resources (JT2) of Dublin, CA, has been providing Workers' Compensation Administration Services since 1986. JT2 has managed the City's account in Oakland since 2001 at their offices in the Dufwin Towers building, located at 519-17th Street, Oakland. JT2 has committed to partnering with a small local firm, Quality Assurance Services (QAS) in a mentor/protégé arrangement. QAS is a young firm established in 2003 with the primary focus of temporary placement of technical claims personnel. Under the Mentor/Protégé Agreement, QAS will be assigned claims handling work, under close supervision of the primary contractor, JT2.

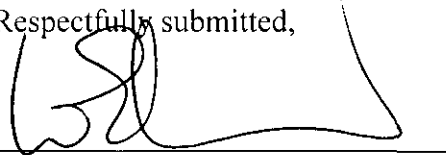
JT2 continues under the ownership of the four original individual owners. They specialize in Workers' Compensation claims administration, and are not a subsidiary to a larger health maintenance corporation, investment or insurance company. JT2 has committed to continuing its partnership with the City of Oakland in the administration of our Workers' Compensation Program.

To ensure that awarding this contract to JT2 or any other vendor, will not result in "business as usual" service, staff is prepared to utilize the three levels of program audits which will include measurable, auditable performance standards to be utilized throughout the contract period. The results of the audits will be used to determine the contractor's eligibility for the payment of the mandatory hold back of 10% of the contract fees required by Contract Compliance.

ACTION REQUESTED BY COUNCIL

Staff requests that the City Council adopt a resolution authorizing the City to enter an agreement with JT2 Integrated Resources for the provision of Workers' Compensation Administration Services for a total contract amount of \$2,059,560 for Contract Year 2007-08 and for a total a contract amount of \$2,162,538 for Contract Year 2008-09 with an option to extend the agreement for two additional two-year terms for an amount not to exceed the prior year's contract amount adjusted by the prior year's Consumer Price Index not to exceed a contract amount increase of 5% for each contract year for Contract Years 2009 through 2013.

Respectfully submitted,



William E. Noland

Director, Finance and Management Agency

Prepared by
Deborah Grant, Risk Manager
Risk Management Division

APPROVED AND FORWARDED TO THE
FINANCE & MANAGEMENT COMMITTEE:


Office of the City Administrator

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**ATTACHMENT A
VENDOR QUALIFICATION MATRIX**

VENDOR NAME	OVERALL RANKING	2 YEAR CONTRACT FEE	TRANSITION FEE	PROPOSED STAFFING LEVEL	YEARS OF EXPERIENCE	PUBLIC AGENCY CLIENTS W/ >2,500 EMPL.	PARENT COMPANY	HQ LOCATION	SUBS. RECEIVING CONTRACT DOLLARS
Claims Management, Inc.	3	\$3,570,000	\$7,500	15	26	5	None	Rancho Cordova, CA	None
Hazelrigg Risk Management Services	5	\$8,750,000	\$25,000	Not specified	16	7	Corvel Enterprise Comp., Inc	Sacramento, CA	Not disclosed
JT2 Integrated Resources	2	\$4,099,123	\$0	17	14	4	None	Dublin, CA	Quality Assurance Services
Sedgwick Claims Management	1	\$5,632,032	\$0	14.3	36	Not Listed	Fidelity Sedgwick Holdings, Inc.	Memphis, TN	None
TriStar Risk Management	4	\$5,087,500	\$8,800	21	20	7 (CA – based)	Tri Star Insurance Group	Long Beach, CA	None (Buckeye/RRPI listed as mentor)

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OAKLAND CITY COUNCIL

Approved as to Form and Legality


City Attorney

RESOLUTION No. _____ C.M.S.

Introduced by Councilmember _____

RESOLUTION AUTHORIZING THE CITY TO ENTER AN AGREEMENT WITH JT2 INTEGRATED RESOURCES FOR THE PROVISION OF WORKERS' COMPENSATION ADMINISTRATION SERVICES FOR A TOTAL CONTRACT AMOUNT OF \$2,059,560 FOR CONTRACT YEAR 2007-08 AND FOR A TOTAL CONTRACT AMOUNT OF \$2,162,538 FOR CONTRACT YEAR 2008-09 WITH AN OPTION TO EXTEND THE AGREEMENT FOR TWO ADDITIONAL TWO-YEAR TERMS FOR AN AMOUNT NOT TO EXCEED THE PRIOR YEAR'S CONTRACT AMOUNT ADJUSTED BY THE PRIOR YEAR'S CONSUMER PRICE INDEX NOT TO EXCEED A CONTRACT AMOUNT INCREASE OF 5% FOR EACH CONTRACT YEAR FOR CONTRACT YEARS 2009 THROUGH 2013

WHEREAS, the City Council desires workers' compensation third party claims administration services; and

WHEREAS, after engaging in an RFP process, the City determined that JT2 Integrated Resources provided the most efficient and effective option for the provision of workers' compensation third party claims administration services; and

WHEREAS, the City Council desires that the contract for services include performance measures for meeting goals specified in the contract in order to qualify for ongoing renewal of the contract within the specified terms of the contract; and

WHEREAS, the agreement provides that for the performance of the services JT2 Integrated Resources will be paid a baseline fee and contract renewal is based on acceptable performance as determined by an independent audit; and

WHEREAS, pursuant to the City Council's motion authorizing the agreement with JT2 Integrated Resources, the agreement provides that the term thereof shall be two years with two options on the City's part to extend the term of the agreement for an additional two years; and

WHEREAS, the City Council finds that this contract is for services of a professional nature; and

WHEREAS, the City Council finds that services under this contract will be temporary; and

WHEREAS, the City Council finds that this contract shall not result in the loss of employment or salary by any person having permanent status in the competitive service; now, therefore be it

RESOLVED: That the City shall enter into a professional services agreement with JT2 Integrated Resources to provide Workers' Compensation Third Party Administration services for two years for an amount not to exceed \$1,999,572 per year plus a 3% contract compliance fee of \$59,988 for a total contract amount of \$2,059,560 for Contract Year 2007-2008 and for an amount not to exceed \$2,099,551 plus a 3% contract compliance fee of \$62,987 for a total contract amount of \$ 2,162,538 for Contract Year 2008-2009; and be it

FURTHER RESOLVED: That upon acceptable performance as determined by an independent audit, the City Administrator is authorized to extend the term of the contract for two additional two-year terms in an amount not to exceed the prior year's contract amount adjusted by the prior year's Consumer Price Index not to exceed a contract amount increase of 5% plus a 3% contract compliance fee for each contract year for Contract Years 2009-2011 and Contract Years 2011-2013; and be it

FURTHER RESOLVED: That funding for these contract services is contained in the FY 2007-09 Proposed Policy Budget in the Workers' Compensation Fund (1150); and be it

FURTHER RESOLVED: That the City Administrator is authorized to complete all negotiations and execute all contracts, amendments, modifications and extensions consistent with this resolution and its basic purposes.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 20_____

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, BRUNNER, CHANG, KERNIGHAN, NADEL, QUAN, REID, and PRESIDENT DE LA FUENTE

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____

LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California