



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 15, 2008

TO: Mayor and Councilmembers

FROM: Risk Management Division, Finance Department

SUBJECT: Agreement For Workers' Compensation Claims Administration

RECOMMENDATION:

That Council approve and authorize the Finance Director to negotiate and execute a professional services agreement with JT² Integrated Resources (JT²) for two fiscal years beginning July 1, 2008, and ending June 30, 2010, to provide workers' compensation claims administration for annual fees of \$234,593 in Fiscal Year 2009 and \$239,285 in Fiscal Year 2010, and provide bill review services for an annual fee of \$72,563.

DISCUSSION:

The purpose of the workers' compensation program is to provide benefits to employees who sustain an injury or an occupational disease arising out of the course of employment. California law requires every employer to provide workers' compensation coverage to its employees. As such, the workers' compensation program is a benefit delivery system. Workers' compensation benefits include medical treatment, temporary disability payments, permanent disability payments, and vocational rehabilitation.

The administrative services provided by JT² are needed to comply with State mandates governing self-insured workers' compensation programs. Services provided by JT² include claims processing, dispensing benefits and payments mandated by State law, medical bill review and other cost containment services, subrogation, litigation control, file maintenance, and statistical reporting.

JT² Integrated Resources (JT²) has provided workers' compensation claims administration services since staff last solicited bids in 1996. In September 2007, an independent audit of JT² performance was conducted resulting in an overall favorable rating. Minor areas of improvement identified by the audit were subsequently addressed. JT² provides the City with the qualifications, experience, technical support, performance guarantees, medical bill review, and fixed price to operate an efficient workers' compensation program that complies with State laws and mandates.

One significant change that will occur going forward is breaking out the fee the City pays for "medical bill review". Medical bill review is a cost control function that consists of comparing the medical procedure and amount billed to the state-mandated fee schedules and preferred provider organization (PPO) contracts. Discrepancies are deducted and the City pays only that amount mandated or contracted. This is one of several tools staff uses in its overall cost containment program. In fiscal year 2007, the medical bill review service resulted in identified medical cost savings of over \$1 million.

In the past, the fee for medical bill review was based on a "per-line (of the medical bill) review charge or a percentage of net-savings." Going forward, services for medical bill review will be on a flat annual fee. This change will result in an annual cost savings of 34%. The flat fee is subject to a minimum (2,000) and maximum (2,500) of billings processed. A rebate or additional levy will apply if the number of reviewed billings processed is under the minimum or over the maximum. Staff projects the number of billings received will be within the proposed range. This projection is based on past billings for the past three years following the Workers' Compensation Reforms of 2004 that reduced or capped treatment frequency.

BUDGET/FINANCIAL INFORMATION:

Under the terms of the recommended contract, the cost for services provided by JT² during Fiscal Year 2009 will be \$234,593; an increase of 2% year-over-year. The cost for Fiscal Year 2010 will be \$239,285; an increase of 2% year-over-year. In each year, the contract can increase or decrease by 5% based on the performance of the contractor.

Under the terms of the recommended contract, the cost for bill review services provided by JT² for both fiscal years 2009 and 2010 will be \$72,563; an estimated decrease of 34% from the fiscal year 2008 cost .

The Risk Management budget for Fiscal Year 2009 contains adequate funds to pay for these services.

PREPARED BY: Brad E. Landreth, Risk Manager

SUBMITTED BY: Robert D. Peirson, Finance Director

APPROVED BY: City Administrator's Office