

# REPORT

## To the Honorable Mayor and City Council From the City Manager

June 23, 2008

### **SUBJECT**

Renewal of agreement with Claims Management Inc. (CMI), to serve as the city's Third Party Administrator for workers' compensation services.

### **RECOMMENDATION**

By Motion, authorize the City Manager to execute the renewal of the agreement between the City of Redwood City and CMI to act as Third Party Administrator (TPA) for the City's self-insured workers' compensation program for the period of July 1, 2008 through June 30, 2009.

### **BACKGROUND**

The City of Redwood City is a self-insured employer in providing workers' compensation coverage to employees and volunteers of the City of Redwood City. In order to administer the self-insured program, the City retains the services of a TPA to ensure the City is in compliance with the various laws and procedures that govern a self-insured workers' compensation program. The Human Resources Department oversees the program and manages the TPA.

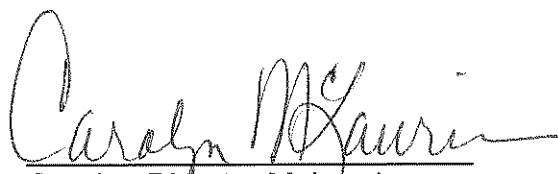
CMI has served as the City's TPA since 2002 and staff has worked collaboratively with CMI to ensure that an aggressive case management approach is being practiced. CMI has provided effective services and has been able to close old cases and manage new and existing cases efficiently. Staff has been satisfied with CMI's performance and as a result the City has realized a reduction in claims and claim costs. In FY 2003/2004 claim costs were \$2.5 million and in FY 2006/2007 claim costs were reduced to \$800,000 representing \$1.7 million in savings. This was due to the following factors: benefits from reforms to workers' compensation laws; reduction in the number of claims filed; implementing new internal systems and closely managing the TPA. Based on the above factors, staff is requesting that Council authorize the renewal of CMI's agreement for third-party administrative services at a cost of \$135,000 effective July 1, 2008 through June 30, 2009. The fee of \$135,000 represents no increase in the fee paid in the current fiscal year.

### **ALTERNATIVES**

Council could direct the Human Resources Department to initiate a Request for Proposals (RFP) for TPA services. Based on the city's positive results with CMI and the desire to have continuity in effective claims management, this option is not recommended this time.

### **FISCAL IMPACT**

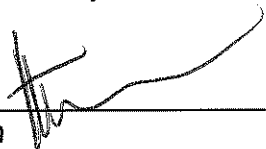
The annual cost for the contract for TPA services provided by CMI is \$135,000; these funds are included in the recommended FY 2008-2009 Workers' Compensation budget.



Carolyn Director McLaurin  
Management Analyst II



Robert Bell  
Human Resources Director



Peter Ingram  
City Manager

**ATTACHMENTS**

1. Agreement for Workers' Compensation Claims Administration Services

## Attachment 1

### AGREEMENT FOR WORKERS' COMPENSATION CLAIMS ADMINISTRATION SERVICES

This Agreement is entered into this 1<sup>st</sup> day of July 2008, between Claims Management, Inc. (hereinafter called "CMI"), and the City of Redwood City. (hereinafter called "Client").

The parties agree to the following:

#### I. TERM

The period of this Agreement shall be from 07/01/2008 through 06/30/2009.

#### II. CONSIDERATION

- A. The CMI fee is \$135,000 payable in monthly installments of \$11,250.00 due on the first of each month.
- B. In the event of a significant change in exposure base, misrepresentation, or legislative changes, the parties reserve the right to renegotiate the fee schedule.

#### III. RENEWAL OF AGREEMENT

- A. After the initial contract, this Agreement may be renewed from year to year provided that any proposed revision in the Agreement by either party be submitted in writing no later than 90 days preceding the expiration of the contract.

#### IV. TERMINATION OF AGREEMENT

- A. Either party may terminate the Agreement by submitting to the other party, in writing, its intent to terminate at least 90 days prior to the date of termination.
- B. All claim files are the property of the Client and will be made available to the Client. If the Client requests claims computer data, there will be a one-time charge of \$500 per tape or other media. Any custom downloads of data or reformatting of claims data will be charged at a rate of \$185 per hour. Vendor data is the property of CMI.

V. **CLAIMS ADMINISTRATION**

CMI shall provide the following workers' compensation claims management for the Client:

- A. Review on behalf of Client all reports of injury as defined by Labor Code Section 3208 and 3208.1, and make contact with injured employee within 24 hours notice of lost time injury is received.
- B. On each reported injury, determine those benefits, if any, that should be paid or rendered under the California Workers' Compensation Laws. Client is responsible for completion of Employer's Report of Injury within five (5) days from the date of knowledge. Client will be responsible for any penalties or assessments if claim is not reported in five (5) days from date of knowledge.
- C. Establish and maintain an orderly claims file on each reported claim. Each file shall be available to Client for inspection, with or without prior notice to adjusting firm.
- D. Maintain an estimate of the total cost of all reasonably foreseeable benefits and related expenses on each case. Each cost shall be recorded separately in the following categories:
  1. Medical
  2. Indemnity
  3. Allocated
  4. Rehabilitation
- E. Pay on behalf of Client from Client funds, those sums that should reasonably be paid under the California Workers' Compensation Laws for each reported claim. Any settlement in excess of the mutually agreed limit set forth in Client's Performance Standards, must be first approved by the Client.
- F. Refer to attorneys selected by the Client, cases where an employee of the Client files an Application with the California Workers' Compensation Appeals Board. It is understood that even when an Application has been filed, a substantial effort will be made by CMI to settle the claim file without assigning it to legal counsel.
- G. Select medical doctors, psychiatrists, psychologists, medical managers, etc., schedule medical appointments, and other services, as is reasonably necessary in the management of workers' compensation cases.
- H. Proceed against responsible persons, agencies and/or their agent in subrogation actions in order to recover losses suffered by Client.
- I. The following fees will be billed to the file under the "allocated loss expenses" which are defined to include all fees for attorneys, witnesses, court reporters, photocopies, process servers, independent investigators, claims index bureau filing fees, any court or Workers' Compensation Appeals Board costs or filing fees, fees for depositions, surveillance, or the necessary engagement of personnel, independent of CMI in the handling of any claim subject to the proposed Agreement.

- J. Provide a monthly check register of all financial transactions.
- K. Provide a computerized loss analysis and summary each month covering activity of claims reported to CMI to include cumulative loss information to date.
- L. CMI's employees shall perform field investigations on individual claims upon the mutual agreement of both parties. All costs and fees for these services will be paid at the standard billing rate plus 50 cents per mile. These fees shall be paid under allocated expenses after approval by Client.
- M. Horizon Managed Care, LLC, an affiliated entity, is our on-site copy service. Allowable photocopy charges are billed to the file under allocated loss expense.
- N. CMI will fully cooperate with all audit requests by Client or other associated agencies.
- O. Affiliated Entities. Separate entities, Horizon Managed Care, LLC ("HMC") and Single Source Medical, LLC ("Single Source Medical") are owned by shareholders and executives of CMI.

HMC provides a medical cost management program. HMC shall be paid by Client for bill review and other services rendered by staff for the managed care program. Costs for outside services for managed care shall also be paid by Client.

Single Source Medical provides durable medical equipment (DME) and other supplies to the injured workers of Client at competitively low rates. Client shall have access to the best pricing offered by Single Source Medical, and will automatically be eligible to receive available discount rates.

In the event that Client elects not to participate in the goods and services offered by either of CMI's affiliated entities, but rather to contract through unrelated vendors, please contact CMI's executive staff to make these arrangements.

## **VI. PENALTIES AND CITATIONS**

CMI shall indemnify and save harmless Client from and against all losses and all claims, demands, payments, suits, actions, recoveries, and judgments of every nature and description brought or recovered against it, by reason of any act or omission of CMI, its agents or employees, in the execution of the service or in consequences of any negligence or carelessness the same and shall provide an Errors and Omissions policy in the amount of \$1,000,000 dollars to assure that Client will be protected for any errors and omissions resulting from the work of CMI.

The parties acknowledge that the California Workers' Compensation Reform Act of 1989 requires first payment of Temporary Disability Indemnity within 14 days of the Client's knowledge of the injury and generally imposes an automatic penalty of 10% of the amount delayed for late indemnity payments which shall be payable directly to the injured employee without application. Furthermore, the parties agree that unless CMI is provided with notice of the claim within 5 days of the Client's knowledge of the injury, the above-referenced automatic penalty of 10% shall be and remain the sole responsibility of the Client.

CMI will agree, however, to make a good faith effort with due diligence to issue the first Temporary Disability Indemnity payment within the 14-day requirement, even in the event that notice of claim is not received by CMI within 5 days of the Client's knowledge of the injury.

CMI will not be responsible for penalties assessed that are the responsibility of the Client, including:

- A. Failure by the Client to provide an Employee Claim Form within twenty-four (24) hours upon request of the injured worker or his/her agent. Failure of employer to complete DWC-1 as required by the Labor Code, even when DWC-1 is submitted to employer by an attorney.
- B. Failure by the Client to provide CMI with an Employer's First Report within five (5) days of the date of knowledge.
- C. Failure by the Client to advise CMI of subsequent periods of disability after a worker returns to work.
- D. Failure by the Client to advise CMI of the conclusion of salary continuation.
- E. Failure by the Client to advise CMI of periodic wage increases due an injured worker, i.e. cost of living, negotiated rate increases, etc.

#### **VII. STAFFING**

- A. CMI agrees to provide Self-Insurance Plans certificated claims examiners. Examiners shall have the certificate at the time of appointment or within six (6) months after the appointment.
- B. At no time shall a claims examiner's caseload exceed 150 open indemnity claims.
- C. In the event that the Client, at any time during the term of this agreement, is dissatisfied with any claims person assigned to the account, Client will notify the CMI Unit Manager of the dissatisfaction. If after 60 days from notification, Client is still dissatisfied, CMI shall remove said person assigned immediately upon receiving written notice from Client of the desire for the removal of such person.

#### **VIII. FILE STORAGE**

- A. During the period of this contract, CMI will store, at its expense, files CMI closes for the period of five years from the date of injury or one year from the date compensation was last provided, whichever is later. After this period, files will either be returned to Client or stored by CMI at Client's option and Client's expense.
- B. Closed files transferred to CMI for storage at the commencement of this Agreement will be stored at the Client's option and expense. There will be a one-time inventorying charge of \$1.00 per file and our current monthly cost for file storage, which is \$1.50 per box.

**IX. TRUST AGREEMENT**

A. The Client will establish an account for the payment of all liability incurred under the terms of the Agreement. The account shall be funded adequately to pay all expenditures. Funding of account and reconciliation will be as agreed upon between Client and CMI.

**X. INSURANCE REQUIREMENTS**

A. Before performing services CMI will provide evidence of the following insurance coverages:

1. Workers' compensation insurance as required by Labor Code Section 3700 for all employees of CMI.
2. Comprehensive and general automobile liability insurance with a minimum of \$1,000,000 combined single limits per occurrence.
3. Professional liability insurance with a minimum of \$1,000,000 per occurrence.
4. Fidelity bond covering CMI's employees who handle any Client monies in the amount of not less than \$500,000.
5. During the life of the Agreement, CMI shall purchase and maintain insurance with coverages set forth above with a 10-day notification cancellation from the insurance company going to the Client.

**XI. EMPLOYMENT PROVISION**

That during the period of this Agreement, and for a period of one (1) year thereafter, CMI agrees not to solicit for employment or employ, any Client's employee contacted during the performance of this Agreement; and Client agrees not to solicit for employment or employ during the period of this Agreement and for a period of one (1) year thereafter any employee of CMI contacted by Client during the performance of this Agreement. A penalty of 50% of the first year's salary of any employee of either CMI or Client solicited by either CMI or Client shall be imposed.

**XII. CONFIDENTIALITY**

CMI agrees to maintain the confidentiality of all information it obtains or gains access to by virtue of this agreement, and shall disclose such information only to those persons who have a need to know the same in relation to the performance of services hereunder.

**XIII. EOE**

Claims Management, Inc. is an equal opportunity employer and will not discriminate on the basis of race, religion, sex, national origin, age or disability.

**XIV. GOVERNING LAW**

This Agreement shall be deemed to have been made in, and shall be construed pursuant to, the laws of the State of California. Any action brought under this Agreement in a court of law shall be in the County of Sacramento.

**XV. NOTICES**

Any notice to be given under this Agreement shall be in writing and shall be sent by certified mail return receipt requested, postage prepaid, or overnight courier, addressed as set forth on the signature page. Such addresses may be changed from time to time by written notice to the other party.

**CLAIMS MANAGEMENT, INC.**

2868 Prospect Park Drive, Suite 600  
Rancho Cordova, CA 95670

Signature \_\_\_\_\_

Name Scott D. Kramer  
Please Type

Title President

Date July 1, 2008

**CITY OF REDWOOD CITY**

1017 Middlefield Road  
Redwood City, CA 94063

Signature \_\_\_\_\_

Name Peter Ingram  
Please Type

Title City Manager

Date July 1, 2008