TO: AC Transit Board of Directors  
FROM: Kathleen Kelly, Interim General Manager  
SUBJECT: Workers’ Compensation Contract Renewal  

RECOMMENDED ACTION(S):  
Consider approving contract award to York Risk Services Group for Workers’ Compensation Third Party Administrator Services, Workers’ Compensation Managed Care, OSHA Reporting and Claims System.  

EXECUTIVE SUMMARY:  
The District’s contract with its third party administrator for workers’ compensation expires on October 31, 2015. On February 11, 2015, the Board authorized staff to initiate a request for proposal for a new contract for these services. Three qualified proposals were received. The evaluation panel consisted of five people, including three District staff members and two (2) external subject matter experts. After careful evaluation of the technical proposal and the in-person presentations, the panel recommended award of the contract to York Risk Services Group the highest. The District negotiated with York Risk Management Services and came to an agreement on terms of services and pricing for the stated services.  

BUDGETARY/FISCAL IMPACT:  
Total cost for the new contract is estimated at $9,719,358 over five years. Payments will be made on a monthly basis, with the first year costs totaling $1,450,930. The current cost of claims administration is $1,255,543, but this does not include OSHA Reporting and the Claims System, which are added features under the new contract. It is also important to note that the current price was negotiated five years ago and the costs for these services have significantly increased. Staff compared the cost to other providers and found the price of the new contract to be fair and reasonable.  

BACKGROUND/RATIONALE:  
Workers’ Compensation is a state mandated benefit for injured workers. Effective March 1, 1993, the District received a Certificate of Consent to Self-Insure for its Workers’ Compensation claims from the State of California Department of Industrial Relations. This certificate permits the District to contract its Workers’ Compensation claims administration to a Third Party Administrator (“TPA”). On September 22, 2010, Contract No. 2010-1137 for TPA services was awarded to XChanging, which was subsequently acquired by Sedgwick. This contract will expire
on October 31, 2015. On February 11, 2015, the Board authorized staff to initiate a request for proposal (RFP) for a new TPA.

The services sought in RFP 2015-1335 included:

- Third party administration of workers' compensation claims;
- Third party administration of the managed care program for workers' compensation;
- OSHA reporting; and
- Claims management system.

Currently these services are provided by different vendors. This unbundled approach has worked in the past but as workflows continue to be more reliant on effective enterprise systems, staff recognized the need to move to a bundled approach whereby all services are tied to one enterprise system. This will allow for efficient processing of requests and sharing of data, which results in accurate and timely reporting. This will enhance the quality of service provided to the District’s employees.

Three qualified firms submitted proposals based on the solicited RFP and York Risk Services Group was ranked highest by the evaluation panel. York’s proposal met, and in many instances exceeded, the requirements set forth in the solicitation. York’s proposal represents the overall best value to the District.

The Best Value method takes into consideration price and other key factors in the evaluation and selection process to minimize impacts and enhance the long-term performance. To determine Best Value, the proposal’s total cost is divided by its total score (or maximum points) to yield a cost per quality-point identifier. The proposal that scores the lowest cost per quality-point is identified as the Best Value proposer in line to enter into negotiations with the District for a potential contract award. York’s proposal not only met the District’s requirements, but also demonstrated strong oversight of the programs under their administration through superior claims management systems capabilities, integrated approach to claims management and stringent auditing standards demonstrated. Below are the scores for the proposers. Please note that the lowest price per point score represents the overall Best Value proposal, taking into consideration pricing and other factors that staff believes will provide sustained long-term performance throughout the life of the contract period.

<table>
<thead>
<tr>
<th>Proposer</th>
<th>Score</th>
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<tbody>
<tr>
<td>York Risk Group</td>
<td>51.0486</td>
</tr>
<tr>
<td>Sedgwick, Inc</td>
<td>71.1133</td>
</tr>
<tr>
<td>JT2</td>
<td>82.9419</td>
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</tbody>
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Costs for the new contract have both fixed and variable cost elements.

**Fixed Costs**

Claims Administration, OSHA reporting, and claims management systems are the fixed costs elements. The chart below shows the annual cost for these services and the annual incremental increase. In addition, there is a one-time implementation fee of $61,630.00.
Variable Costs

The TPA services for the managed care program for workers’ compensation is variable and is dependent on actual utilization. The managed care program encompasses various services including Bill Review, Utilization Review, Nurse Case Management and Pharmacy Benefits Management. There are other ancillary services, in which the District receives a bulk discount, such as diagnostics and durable medical equipment. The vendor is paid only if services are utilized, and the payments are dependent on the volume of claims and the medical treatment required.

The District relied on its consultants, David Donn Consulting Inc. (DDC), to perform the analysis on projected cost of the Managed Care Services. The analysis is a performance test of the proposer’s overall savings capabilities based on the District’s historical utilization data and then applied to the negotiated fee schedule. The five year cost of managed care services is estimated to be approximately $2,107,030.

Total Cost

The total cost for the five year contract is estimated to be approximately $9,719,081.

ADVANTAGES/DISADVANTAGES:

Bundling the TPA services together provides efficiencies and cost savings, which translates to better service for the District. It also reduces redundant and manual processes, which are time consuming.

ALTERNATIVES ANALYSIS:

An alternative would be to award the contract to one of the other two firms or to resolicit for the TPA services; however, re-solicitation would require an extension of the current contract to ensure there is a TPA in place for the workers’ compensation program. In addition this approach will result in lost time and additional resources to be allocated to the evaluation process. The District would also have to forgo any of the efficiencies that will be gained as a result of bundling services.

PRIOR RELEVANT BOARD ACTIONS/POLICIES:

Staff Report 15-064
ATTACHMENTS:

None

Department Head Approval: Thomas Prescott, Acting Chief Administrative Services Officer
Reviewed by: Kathleen Kelley, Interim General Manager
Denise Standridge, General Counsel
James Pachan, Interim Chief Financial Officer
Jon Medwin, Director of Procurement and Materials
Prepared by: Duc Le, Human Resources Manager