



Agenda Report

20-508

Agenda Date: 6/23/2020

REPORT TO COUNCIL

SUBJECT

Action on Agreement with Sedgwick Claims Management Services, Inc., for Third Party Administrator (TPA) Services in Support of the City's Self-Insured Workers' Compensation Program [Council Pillar: Manage Strategically Our Workforce Capacity and Resources]

BACKGROUND

Sedgwick Claims Management Services, Inc (Sedgwick) is the successor organization to Gates McDonald and Cambridge and has been providing Workers' Compensation TPA services to the City since 1977. The service components consist of basic claims administration services and ancillary services designed to assist in managing employee workers' compensation claims, claims costs, and claims outcomes in accordance with the State Labor Code. The ancillary services include bill review, utilization review and nurse case management. Council approved an amendment to the current agreement with Sedgwick extending the term an additional year through June 30, 2020 in order to provide sufficient time to administer a Request for Proposals (RFP) process to ensure that the City was getting the best services and value. This procurement process was to also evaluate the relationship with Sedgwick relative to service delivery, cost structure and best-practice claims administration considerations.

DISCUSSION

As TPA services were being reviewed, Sedgwick acquired one of the largest public entity TPA providers in California, York Risk Services Group (York) in September 2019. This acquisition significantly changed the marketplace, as York has the largest public entity practice in this market and was a potential successor to Sedgwick. Additionally, York has been a key provider of TPA services to the California State Association of Governments Excess Insurance Authority (CSAC-EIA), the risk pool the City participates in to buy its excess lines and specialty insurance coverage, including Workers' Compensation. York has been an integral partner with the EIA on their first-dollar primary workers' compensation program and serves a large number of public member entities in the EIA's excess workers' compensation program and is recognized for providing best-practice TPA claims management services to CSAC-EIA members. Sedgwick's acquisition of York makes them a preferred provider with the EIA, which is one of the largest public risk pooling organizations in the United States.

While the City was evaluating these changes and their potential impact to the City's services, pricing and an RFP, the Human Resources department was unexpectedly impacted by the COVID-19 global pandemic and immediately needed to redirect its resources to addressing the broad and complex impact on city-wide operations and City employees. Staffing changes/vacancies within Human Resources further impacted the City's ability to complete an RFP and the decision was made to leverage the Sedgwick acquisition of York in the short term and extend the agreement for two years. This extension provides city staff time to prepare a Request for Proposal, to focus on the impacts of

COVID-19, including budgetary impacts, to address priorities as well as look at staffing and resource efforts.

Staff is proposing a base two-year agreement, beginning July 1, 2020 through June 30, 2022, and three one-year option terms with Sedgwick. The new pricing structure of this agreement provides price stability to the City for the TPA and bill review elements of the agreement while ensuring continued quality service is delivered by Sedgwick. This pricing structure avoids unpredictable cost spikes for the City that were experienced in the current volume-based pricing structure, avoiding fluctuations of as much as \$127,000 year-over-year. The not-to-exceed compensation amount for the two-year term of this agreement is \$687,754. This is \$11,186 more per year than the average actual expense was for the prior five-year period and represents a 3.3% increase.

This Agreement requires that all Sedgwick personnel acting as examiners on City claims possess a current Workers Compensation Claims Administration (WCCA) certification from the State of California; this Agreement therefore falls within the purview of SCCC 2.105.330(e)(1) ["contracts for specialized services from licensed professionals"].

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(a) as it has no potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. Furthermore, the action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(5) in that it is a governmental organizational or administrative activity that will not result in direct or indirect changes in the environment.

FISCAL IMPACT

The term of this agreement will begin on July 1, 2020 and terminate on June 30, 2022, with an option to renew for three additional one-year periods. The maximum compensation under this agreement is \$1,854,579, subject to the appropriation of funds. Appropriations for these services are included in the Workers' Compensation Fund Contractual Services account as part of the FY 2020/21 Operating budget. Appropriations in future years will be incorporated as part of the budget development process.

COORDINATION

This report has been coordinated with the City Attorney's Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>>.

RECOMMENDATION

Approve and authorize the City Manager to execute the Agreement for TPA services supporting the

City's Self-Insured Workers' Compensation Program with Sedgwick Claims Management Services, Inc. for the not-to-exceed compensation amount of \$1,854,579.

Reviewed by: Aracely Azevedo, Director of Human Resources

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Agreement with Sedgwick Claims Management Services, Inc.