



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE AND  
STRATEGIC SUPPORT COMMITTEE

**FROM:** Edward K. Shikada  
Kay Winer

**SUBJECT:** SEE BELOW

**DATE:** February 9, 2011

**Approve:**

**Date:**

2/10/11

**SUBJECT: ALTERNATIVE SERVICE DELIVERY EVALUATION FOR EMPLOYEE HEALTH SERVICES**

## RECOMMENDATION

Accept this report on the service delivery evaluation for Employee Health Services.

## EXECUTIVE SUMMARY

The Administration issued a Request for Information in April 2010 for a vendor to provide occupational health services to City employees. The preliminary evaluation concluded that there does not appear to be a business case to proceed with a formal request for proposals at this time, however a number of factors limit the evaluation. One measure the City could take to more accurately evaluate the costs of a third party vendor to provide employee health service is to update our records management system to determine more precisely the number of medical procedures that the City performs. Staff acknowledges that a budget addition for a records management system in the current fiscal environment may not be feasible. Staff recommends pursuing this as a future investment to allow for better reporting and tracking of medical services.

Staff also recommends the implementation of a follow-up fitness program as a future investment opportunity to assist employees whose health could be improved as indicated by their annual physical examinations, especially for Police and Fire Personnel. Since many illnesses, such as diabetes, high-blood pressure, heart diseases, and cancer are presumed to be work related (for Police and Fire personnel) according to the State workers' compensation laws, the City is obligated to pay medical costs and disability benefits for employees who suffer these illnesses. Having a follow-up fitness program would help employees to be healthy and generate cost savings to the City.

## **BACKGROUND**

In February 2010, the Administration advanced a list of service delivery proposals being considered as part of the 2010-2011 Budget in accordance with Council Policy 0-41, Service Delivery Evaluation. Employee Health Services was selected for a business case analysis.

In preparation for the business case analysis, a Requests for Information (RFI) was released in April 2010. The RFI sought information from qualified vendors to provide health services to determine whether to proceed to a competitive solicitation for the services. The Administration received two responses to its medical services vendor RFI; from Kaiser Permanente and U.S. Healthworks Medical Group (USHW). The vendor responses were analyzed by staff to assess the potential to realize savings and efficiencies through contracting out the services to private vendors. Staff met with both vendors to review RFI responses to ensure comparison of like services.

## **ANALYSIS**

This memorandum provides an overview of the City's Employee Health Services, staff's analysis of the results of RFI, and outlines recommendations to consider for future investment.

### **Employee Health Services Unit**

Employee Health Services is budgeted in 2010-2011 for a staff of approximately five full-time equivalent positions (FTEs) in all funds and approximately four positions in the General Fund. Major medical services provided by EHS include:

- Physical examinations for Police and Fire personnel
- Medical surveillance examinations
- Hearing conservation services
- Random drug testing
- Wellness screening

The services evaluated in the request for information include only those services performed by positions funded by the General Fund. The one position difference represents the funding provided by the Federated and Police and Fire Retirement Funds to oversee and evaluate disability retirements. Total funding budgeted in the General Fund for the health services program includes \$496,000 in personal service expenditures and \$157,000 in non-personal/equipment expenditures. In addition, the estimated cost of rent and overhead (\$94,000) bring the estimated cost for the Employee Health Services Unit to \$747,000 in 2010-2011 as depicted in Table 1. below. It is anticipated that personnel costs of the City will continue to increase in 2011-2012 and over the next few years, therefore, this will require reconsideration of outsourcing this service in the future as the gap between the City's costs and potential outside vendors' costs may be reduced.

**Table 1. Cost to provide Employee Health Services In-House**

<b>FY 2010-2011</b>	<b>FTE</b>	<b>GF</b>
Personal Services	3.68	\$496,000
Non Personal		\$157,000
Overhead		\$ 41,000
Rent		\$ 53,000
<b>Total</b>		<b>\$747,000</b>

It is important to note that the costs associated with rent and overhead costs will not result in a direct expenditure reduction in the General Fund should this program be contracted out. In addition, the realignment of the remaining duties to provide services for the Retirement Board in relation to retirement disabilities would be necessary.

In addition, there are opportunity costs to consider related to the Health Building at former City Hall. The total Health Building space is approximately 1,600 sq. ft. Currently, the lease cost for comparable office space in the geographic area of the Health Building is between \$1.25 and \$2.00 per square foot. A one-time investment cost of \$60,000 for improvements would also be necessary to make the space ready for occupancy. The evaluation of re-use opportunities for former City Hall is also on-going. If and when a decision is made on the re-use of the former City Hall, the housing and operations of EHS will be evaluated in current City facilities and other leased space.

### **Request for Information Results**

The administration received two qualifying vendor responses to its employee health services RFI in May 2010. Staff met with both vendors to review RFI responses to ensure comparison of like services and both vendors submitted revised cost proposals in the fall of 2010. A summary analysis of the responses, along with a comparison to the City of San José's program costs are detailed in the table below. The analysis suggests that the City of San José's current service delivery model is more cost effective than each of the models proposed by vendors in this RFI process.

As Table 2 below illustrates, the City's cost to provide Employee Health Services is approximately \$747,000. By comparison the approximate cost of USHW to provide the service is approximately \$1.1 million or 32% higher than the City's delivery of the service. Kaiser's cost is \$933,966 or 20% higher than that of EHS. Staff also reviewed the internal staffing that would be necessary to manage a contract of services provided by an outside vendor. Staff concluded that minimum staffing would consist of 1.5 FTEs (estimated annual cost: \$225,000) including one Nurse Practitioner to monitor the provision of medical services and 0.5 Analyst to coordinate service provision with all City Departments and to ensure that the vendor meets the performance standards of the contract. This conclusion is based on analysis of internal needs and on research of other governmental jurisdictions (Long Beach and San Francisco) in California.

**Table 2. Analysis of Cost Proposals**

<b>Vendor</b>	<b>Proposed Cost of Basic Services</b>	<b>20% Increment (additional cost for services above basic level)</b>	<b>Total Annual Cost</b>
Kaiser	\$778,305 <sup>1</sup>	\$155,661	\$ 933,966
U.S. HealthWorks	\$917,313	\$183,463	\$1,100,776
City of San José EHS (2010-2011 Adopted Budget )	\$747,000	\$0	\$ 747,000

**Vendor Proposal Assumptions**

There are a number of challenges that limit this evaluation worth noting. First, the vendors' cost proposals are on a transactional basis and rely on the City's estimate of the number of medical procedures that are performed by staff under the current in-source model. While staff believes fair estimates of the number of medical procedures performed were considered, the City does not maintain an electronic medical record keeping system that can provide precise information on the number of as needed tests performed. Currently, the City maintains a manual system for keeping records. A medical chart (folder) is created for each employee. The chart is updated (new information is added) every time employees receive medical services. The charts are kept in alphabetical order and by department in a secured place in the EHS office. Having an electronic records system would enhance the efficiency of record keeping.

It is also important to note a few assumptions made when calculating the vendor costs. For both Kaiser as well as U.S. HealthWorks, revised costs were based on basic service level projections and additional costs for subsequent services and procedures should the basic level prove insufficient. For example, unless a tuberculosis skin test comes back positive, additional tests would not be necessary; therefore, only the cost for the skin test is included in the basic level of services. EHS does have accurate records of medical procedures performed at the basic service level. Based on industry trends identified by the providers, combined with the analysis of the City's medical staff for services provided above the basic level, an assumption of 20% has been added to the original vendor proposals to accurately represent the estimated ratio of instances in which additional services beyond the basic level would be necessary.

**Future Investments**

Staff considered a number of continuous improvement opportunities given the factors limiting the evaluation. One measure the City could take to more accurately evaluate the costs of a third party vendor to provide employee health service is to update our records management system. To more accurately evaluate the number of medical procedures that the City currently performs,

<sup>1</sup> Staff is continuing the discussion with Kaiser to refine the cost of basic services to ensure that the medical procedures, test, and examinations, described under basic level of services are comparable to those of U.S. HealthWorks and of EHS.

the City would need to invest in an electronic record keeping system. Staff estimates the cost of a software program, based on an informal estimate from a reputable EHS computing solutions vendor, to be approximately \$60,000 one-time, plus an on-going annual maintenance cost of approximately \$8,000. A formal bid process would be needed to validate the cost estimate.

To further refine the evaluation staff could also pursue a different approach to the costing. Under the current model, staff compared cost estimates for the services provided by vendors on a transactional basis to the City's fixed staffing costs. Staff could pursue a unit cost comparison approach. This approach would require EHS staff to calculate average unit cost prices for key services and to compare the costs to the vendors' proposals. Staff also considered pursuing further independent evaluation from a consultant or the City Auditor's Office.

Another potential future investment opportunity evaluated is the implementation of a follow-up fitness program to assist employees whose health could be improved as indicated by their annual physical examinations, especially for Police and Fire Personnel. The estimated annual cost for a Nurse to manage this program is approximately \$140,000. This potential investment opportunity will be evaluated as part of addressing the 2011-2012 Preliminary General Fund shortfall currently estimated at \$110 million. Cardiovascular/heart related injuries in the City of San Jose's Police Department alone accounted for 57 worker compensation claims in the last four fiscal years costing the City an estimated \$3,873,000. In the last 14 months, the City has agreed to pay approximately \$1.8 million as part of workers' compensation settlements for 13 cancer and heart related claims. In addition to the \$1.8 million settlements, the City also agreed to pay life pension to eight out of 13 claimants. Preventing one claim would more than pay for the cost of the proposed program. Staff will further evaluate incorporating these priorities into the existing Employee Wellness Program initiatives.

Staff recognizes the value of the investment opportunities discussed above but the current fiscal environment renders these types of expenditure unrealistic at this time. Staff recommends reviewing the continuous improvement opportunities in future fiscal years when budget conditions improve. Staff could proceed to further refine the cost evaluations; however the potential return on the continued resource investment does not appear to justify further evaluation.

## **CONCLUSION**

Staff has completed an RFI to determine whether to proceed to a formal request for proposal for a third party vendor to provide employee health services to the City. The results indicate with our current information that the existing internal EHS model is more cost effective than the vendor-proposed models. Staff recommends reviewing the continuous improvement opportunities identified in this memorandum in future fiscal years when budget conditions improve.

### **PUBLIC OUTREACH**

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Although this item does not meet any criteria listed above, the memorandum will be posted on the City's website for the January 20, 2010 Public Safety, Finance and Strategic Support Committee meeting.

To outreach potential vendors, this RFI was advertised on the City's internet Bidline and the Demand Star bid notification system. In addition, staff sent a draft RFI to affected employees and bargaining unit representatives for their review and comments in March 2010. Staff met with bargaining unit representatives in April 2010 to discuss their comments and concern regarding the RFI and the alternative service delivery process. Furthermore, staff met with bargaining unit representatives in August 2010 to discuss the results of the RFI responses and share with them the next steps for completing the alternative service delivery process.

### **COORDINATION**

This memorandum has been coordinated with the Budget Office and Finance Department.

### **CEQA**

Not a Project, File No. PP10-066 (e), Services that involve no physical changes to the environment.



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/s/

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