



Memorandum

TO: Public Safety, Finance and Strategic
Support Committee

FROM: Alex Gurza

SUBJECT: Semi-Annual Workers' Compensation Report as of December 31, 2011

DATE: March 8, 2012

Approved: 

3/8/12

RECOMMENDATION

Accept status of report on Workers' Compensation activity and costs as of December 31, 2011.

BACKGROUND

The City Auditor's Workers' Compensation Audit Report in 2009 recommended a report to the Public Safety, Finance, and Strategic Support Committee that covers the City's Workers' Compensation Program. This report is provided on a semi-annual basis.

For the first half of Fiscal Year 2011-2012, the Citywide Workers' Compensation costs (medical, indemnity, and legal expenditures) are lower than the budgeted amount, and the total number of claims is lower than that of last year. Disability leave supplement (DLS) expenditures are also lower than last year. As of December 31, 2011, the City expended \$3.3M in disability leave costs as compared to \$4.4M during the same period last year, a decrease of 25%.

One notable change in disability leave is that as of January 1, 2010, disability leave payments for sworn personnel fall under the provision of state Labor Code 4850 as a result of Assembly Bill 1127, and therefore is exempted from income tax. This increases the take home value of the benefits received by sworn personnel.

Another notable change is that DLS has been reduced from 9 months to 3 months for all non-sworn employees.

This report presents more detailed information in the following areas:

- ◆ Costs for City Departments accounting for a majority of General Fund costs
- ◆ Significant components of costs, such as medical, indemnity, and disability leave
- ◆ Claims analysis and timeliness of claim payments

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I. Workers' Compensation Costs for City Departments

From July 1, 2011 to December 31, 2011, the City expended \$7.13M in General Fund costs for Workers' Compensation as compared to \$8.10M over the same period last year, a decrease of 12%. The table below shows detailed costs (medical, indemnity, and legal) by Departments. Medical costs are expenses such as physician office visits, prescription medicine, and physical therapy. Indemnity costs are temporary disability payments to compensate an employee's time off from work and permanent disability payments for injuries that result in permanent impairment. Legal costs are expenses relating to the defense of claims that are litigated.

Table 1: Costs by Department

Department	Adjusted W/C Budget	Mid-Year Expenditures	Year-End Projected	Year-End Balance
Police	8,305,000	3,258,020	6,516,040	1,788,960
Fire	5,563,000	2,493,230	4,986,460	576,541
DOT	681,600	263,540	527,080	154,520
PRNS	1,175,000	415,060	830,120	344,880
Public Works (GS)	748,000	231,837	463,674	284,326
Others Departments	<u>1,213,000</u>	<u>465,893</u>	<u>931,786</u>	<u>281,213</u>
General Fund (GF) Total	17,685,600	7,127,580	14,255,160	3,430,440
Special Funds (SF) Total	<u>2,866,500</u>	<u>826,156</u>	<u>1,652,312</u>	<u>1,214,187</u>
Grand Total	20,552,100	7,953,736	15,907,472	4,644,627
Disability Leave (DL) Total	n/a	3,304,292	<u>6,608,584</u>	n/a
Grand Total WC Cost			22,516,056	

In addition to the Workers' Compensation costs listed in Table 1, which are funded from Citywide appropriations, Workers' Compensation costs also include disability leave supplement payments, which are funded from the departments' budgets. Including the disability leave cost, the grand total Workers' Compensation costs projected for Fiscal Year 2011-2012 is \$22.5M.

Disability Leave Supplement Cost Analysis

Disability leave supplement payments are benefits negotiated with non-sworn bargaining units to supplement the temporary disability payments mandated by the State of California. With regard to sworn employees in the Police and Fire Departments, disability leave supplement payments are mandated by state Labor Code 4850.

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Supplemental disability leave payments are one of the major workers' compensation cost components. The City pays injured employees a disability leave supplement for a maximum of three months (non-sworn employees) and one year (sworn employees) out of departmental budgets. The temporary disability payments are paid out of the Citywide Workers' Compensation appropriation.

It should be noted that disability leave supplement was recently reduced to three months, and will be eliminated for four of nine non-sworn bargaining units in FY 2012-2013. The one year salary continuance for sworn Police and Fire personnel is now under state Labor Code 4850.

Both non-sworn and sworn employees are eligible for state mandated Workers' Compensation Temporary Disability (TD) benefit once the disability leave supplement and state Labor Code 4850 benefits have been exhausted or the employee is no longer eligible.

Table 2: Disability Leave Supplement Cost by Department

Department	Mid-Year FY 11-12 Disability Leave	Mid-Year FY 10-11 Disability Leave	Net	Percent Change
Police	\$2,087,912	\$1,856,747	\$231,165	12%
Fire	\$1,003,544	\$1,732,214	(\$728,670)	-42%
DOT	\$70,061	\$133,543	(\$63,482)	-48%
Public Works (GS)	\$24,876	\$111,569	(\$86,693)	-78%
PRNS	\$42,702	\$146,979	(\$104,277)	-71%
Other Departments	\$75,197	\$420,150	(\$344,953)	-82%
Total	\$3,304,292	\$4,401,202	(\$1,096,910)	-25%

The disability leave supplement cost increase in the Police Department was due to an increased number of employees who were out on disability leave for long periods of time (500 hours or longer). By mid-year of FY 2010-11, there were 26 sworn employees in the Police Department who were out on disability leave for 500 hours or longer. This number increased to 39 (a 50% increase) in same period of FY 2011-2012.

II. Significant Components of Costs

Significant components of Workers' Compensation costs include medical, indemnity, legal, and rehabilitation. All costs including part of TD expenditures (TD payments after one year for sworn personnel and three months for non-sworn personnel) are budgeted in

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Citywide appropriations. TD expenditures within the first year for sworn personnel and within the first 3 months for non-sworn are paid out of departmental budgets.

The table below presents various cost components for both the General Fund and Special Funds.

Table 3: Cost Components

Department	Medical	Indemnity	Legal and Rehabilitation	Total
Police	\$1,593,082	\$2,576,838	\$26,812	\$4,196,731
Fire	\$1,117,283	\$1,701,568	\$44,892	\$2,863,743
DOT	\$213,130	\$191,309	\$1,808	\$406,247
Public Works (GS)	\$118,212	\$220,582	\$3,160	\$341,954
PRNS	\$229,928	\$296,777	\$4,868	\$531,573
Other	<u>\$525,295</u>	<u>\$496,193</u>	<u>\$20,223</u>	<u>\$1,041,712</u>
Total	\$3,796,930	\$5,483,267	\$101,762	\$9,381,959

Overall, medical costs account for approximately 40% of the total cost; indemnity, legal, and rehabilitation costs account for the remaining approximately 60%.

III. Claims Analysis and Timeliness of Claim Payments

The total number of claims as of December 31, 2011, was 403 as compared to 593 in previous year, a decrease of 32%. The figure 403 has been adjusted for incurred but not reported (IBNR) claims by 7% based on historical data. IBNR are claims that have occurred or will occur but have not yet been reported and this adjustment is needed to improve the accuracy of the comparison and projection.

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Table 4: Claims by Department

Department	FY 11-12 Claims*	FY 10-11 Claims	Net	Percent Change
Police	148	233	(85)	-36%
Fire	102	174	(72)	-41%
DOT	29	27	2	7%
Public Works (GS)	27	41	(14)	-34%
PRNS	36	49	(13)	-27%
ESD	28	18	10	56%
Airport	4	5	(1)	-20%
Other	<u>29</u>	<u>46</u>	<u>(17)</u>	-37%
Total	403	593	(190)	-32%

* Adjusted with 7% IBNR

The timeliness of medical bill payments monitors the timeframe in which medical bills are being paid. In the first six months of FY 2011-2012, approximately 22,500 bills were received by the City and paid according to the timeline below:

- ◆ 99.9% were paid on a timely basis within the state statutory timeframe of 60 days
- ◆ 76% were paid within 15 days
- ◆ 24% were paid within 16 – 60 days

CONCLUSION

A Workers' Compensation Reform framework, dated December 9, 2011, was approved by PSFSSC in December 2011 and is available here:

http://www.sanjoseca.gov/clerk/CommitteeAgenda/PSFSS/20111215/PS20111215_d5.pdf. This is a comprehensive plan that outlines a framework for improvement in all aspects of the workers' compensation process. We are providing monthly updates on the reform plan to the PSFSSC and through this plan, we hope to make more improvements to the workers' compensation process and costs.



Alex Gurza
Deputy City Manager

Please contact Dave Wong, Division Manager of HR/Health and Safety at 975-1418 for further information or questions.