



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Mark Danaj

SUBJECT: SEE BELOW

DATE: 06-07-04

Approved

Date

**SUBJECT: AMENDMENT OF CONTRACT FOR WORKERS' COMPENSATION
COST CONTAINMENT SERVICES**

RECOMMENDATION

Approval of an amendment to the agreement with Fair Isaac Corporation (formerly Diversified HealthCare Services) to provide workers' compensation cost containment services during the period July 1, 2003 to June 30, 2004, to reflect a change in name of the company, to modify the scope of services, to increase compensation to an amount not to exceed \$950,000.00 for FY 2003-2004, and to increase the total amount of compensation in option years 2, 3 and 4 to an amount not to exceed \$850,000.

BACKGROUND

The City spends \$20 million annually for workers' compensation benefits with medical expenditures comprising 50% of the total program costs. The objective of this agreement is to ensure the delivery of cost effective medical services.

On June 25, 2002, the Council adopted Item 2.10 authorizing the City Manager to negotiate and execute an agreement with Diversified HealthCare Services as a workers' compensation cost containment provider. This agreement was written for a one-year term during the period July 1, 2002 through July December 31, 2003 with 4 one-year options not to exceed \$400,000 per year.

At the inception of the contract, Diversified HealthCare Services provided the function of medical bill review, which ensures that the City is not being charged in excess of the State mandated fee schedule. In addition, Diversified HealthCare Services administers the medical preferred provider organization (PPO) network which allows the City to receive substantial discounts below the State mandated fee level for medical bills.

Several events have occurred requiring changes to the current approved contract:

- Fair Isaac Corporation purchased Diversified HealthCare Services, which requires a vendor name change and signature authority on the contract.
- Legislation was passed requiring the City to adopt utilization review program to include specific services as mandated by AB 227 and SB 228.
- The State's Official Medical Fee Schedule did not regulate surgical procedures from outpatient surgery centers prior to January 1, 2004 and exorbitant fees were being charged. Fair Isaac Corporation performed special desk audits of each billing at the request of the City of San Jose.

ANALYSIS

As a result of the purchase of Diversified Healthcare Services by Fair Isaac Corporation, the vendor name of the company and signature name authority should be formally amended on the contract.

The City has adopted a medical utilization review program as mandated by AB 227 and SB 228. Effective March 1, 2004, Fair Isaac reviews various medical treatment plans according to the legislative adopted standards set forth in the American College of Occupational and Environmental Medicine Occupational Medical Practice Guidelines (ACOEM). It is anticipated that fees for this service will be approximately \$150,000.00 based on treatment plan review charges ranging from \$95 to \$250 (depending on the complexity level of utilization review).

The City requested that Fair Isaac Corporation conduct desk audits on fees from surgery centers that perform outpatient surgeries on our employees as exorbitant fees were being charged. The State's Official Medical Fee Schedule did not regulate these surgical procedures until January 1, 2004 as a result of a legislative change. As of March 31, 2004, desk audits have resulted in net savings of almost \$2,000,000.00. Fair Isaac fees for Desk Audit Services are 18% of savings or roughly \$360,000.00. It is anticipated that another 40,000 will be billed to the City before the end of the fiscal year, requiring a total of \$400,000.00 be added to the contract for this service. The new total not to exceed amount of the contract for FY 03-04 will be \$950,000.00.

The new contract includes provisions for three renewal options with each future renewal not to exceed \$850,000.00. Claims occurring in future renewal years will be subject to the official medical fee schedule and as a result fees associated with the desk audit service should be reduced by \$400,000.00 while fees associated with mandated utilization review should increase by \$300,000.00 resulting a projected not to exceed amount of \$850,000.00 in FY 04-05, FY 05-06, and FY 06-07.

<u>Option Year</u>	<u>Maximum Compensation</u>
1 (July 1, 2003 to June 30, 2004)	\$950,000
2 (July 1, 2004 to June 30, 2005)	\$850,000
3 (July 1, 2005 to June 30, 2006)	\$850,000
4 (July 1, 2006 to June 30, 2007)	\$850,000

Continuing the relationship with Fair Isaac as a partner in the City's cost containment program provides employees a large medical network from which to seek quality treatment, and at the same time ensures that benefits are delivered in a cost efficient manner.

PUBLIC OUTREACH

Not Applicable.

COORDINATION

This contract amendment has been coordinated with the City Attorney's Office and the Budget Office.

COST IMPLICATIONS

This agreement is funded through savings realized from lower workers compensation medical costs. The charges for the cost containment services are considered claim adjustment expenses and will be charged to the claim file from which the bill originates.

FUNDING SOURCES

This contract will be serviced from the Workers' Compensation Citywide Appropriation FY 03-04 Operating Budget page # 707.

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CEQA

Not a project.

MARK DANAJ

Director, Employee Services

