

DATE ISSUED: March 10, 2004

REPORT NO. 04-045

ATTENTION: Honorable Mayor and City Council
Docket of March 15, 2004

SUBJECT: Industrial Medicine Contract

SUMMARY

Issue – Should the City Council approve a two year Agreement with three (3) one (1) year extensions with Sharp Rees-Stealy Medical Group to provide industrial medicine services to City employees?

Manager's Recommendation – Approve the Agreement with Sharp Rees-Stealy Medical Group.

Other Recommendation – None.

Fiscal Impact – Expenditures of up to \$2,363,300 per year from the Workers' Compensation Fund (Fund Number 6029) are anticipated for the duration of the Industrial Medicine Agreement. Sharp Rees-Stealy Medical Group will receive approximately \$950,000 per year for providing various industrial medical services for City employees and the San Diego Hospital Association, a subcontractor of Sharp Rees-Stealy Medical Group representing four Sharp Hospital facilities in San Diego County, will receive approximately \$1,400,000 per year for inpatient and outpatient medical services for City employees. The remainder of the funds will be paid to three subcontractors providing industrial medical care and audiometric and respiratory fitness services. Payments under this contract are made on a fee-for-service basis.

BACKGROUND

The City of San Diego has a commitment to provide a safe working environment for all its employees. When an employee is injured, their Workers' Compensation claim is

handled by the Risk Management Department in accordance with the laws of the state of California for self insured and self administered agencies. The Risk Management Department is also responsible for the implementation of State mandated Audiometric and Respiratory testing of specified employees, such as Firefighters, Police Swat Team Members, Helicopter Pilots, Equipment Operators, etc.

In order to comply with Workers' Compensation benefit mandates and California Occupational Safety and Health Administration (Cal OSHA) required testing, as well as to provide the best medical care available to its injured workers, the City released a Request for Proposals (RFP) for an industrial medical provider to provide the following services:

- Medical treatment for industrially injured employees
- An audiometric testing service
- A respiratory fitness testing service
- A safety and loss prevention medical program

Industrial medical services ensure that City employees receive the best medical care available at discount pricing. Under the current contract, the City projects savings from discounts of over \$300,000 this fiscal year. The services also provide for physician assistance with safety and loss prevention issues. Physician collaboration with City safety staff helps to provide training and prevention of industrial injuries and illnesses. These services are currently provided under an existing contract with Sharp Rees-Stealy Medical Group (SRSMG).

DISCUSSION

An Industrial Medicine Services RFP was initiated in September of 2003. The following three vendors submitted responses:

- Kaiser Permanente
- Sharp Rees-Stealy Medical Group
- US Healthworks

The RFP evaluation process was divided into three phases. The first phase was a review of the three proposals to ensure that all information required in the RFP was included in each vendor's response prior to further evaluation.

The second phase involved a review of the services offered by the responsive vendors determined to have submitted complete proposals. A selection committee was assembled that consisted of both City staff and employee union representatives. All four of the City's labor organizations were invited to participate in the evaluation process with Local 127 and the MEA responding. The remainder of the evaluation team consisted of staff from the Risk Management department and "customer" departments served by these industrial medicine services, including the Fire and Metropolitan Wastewater departments.

The evaluation team reviewed the proposals, conducted site visits of vendor locations and rated the vendors according to the following criteria:

- Experience in providing industrial medicine services
- Experience in the California workers' compensation system
- Experience with large self-insured public agencies
- Use and experience of technology to deliver solutions
- Experience delivering audiometric and respiratory exam services
- Experience in providing workplace environmental services
- Proposal responsiveness, completeness and quality
- Performance of administrative and medical tasks
- Proposal pricing
- Vendor references

The third phase of the evaluation process involved the review of the vendor's pricing and references. The following table displays the approximate savings from the SRSMG and US Healthworks proposals.

VENDOR PRICING – SAVINGS TO CITY

	Sharp Rees-Steely	US Healthworks
OMFS Pricing ¹	\$ 50,000	\$150,000
Hospital Fee Elimination Savings ²	\$264,000	-0-
Total Savings	\$314,000	\$150,000

1. The Official Medical Fee Schedule (OMFS) establishes the price physicians charge for medical services related to work related injuries. SRSMG offers a 5% discount and US Healthworks offers a 15% discount off the OMFS.
2. SRSMG holds an advantage of owning and operating its own hospitals, and therefore with its bid the City is able to avoid third party fees for securing hospital discounts. The SRSMG bid offers a preferred provider hospital network that saved \$1.2 million in FY 2003 and \$700,000 in the first six months of FY 2004. Without the SRSMG contract, the City would have to rely on hospital discounts available through its bill-review contractor (GENEX), however the contractor would withhold 22% of resulting savings as their fee. US Healthworks did not propose a hospital network.

Both SRSMG and US Healthworks proposed a Magnetic Resonance Imaging (MRI) discount, outpatient surgery discount, pharmacy program and audiometric and respiratory discount. The savings difference between the two vendors is similar and any savings between the two vendors is negligible for these services.

After completing the evaluation process, the selection committee unanimously selected SRSMG as the best provider of industrial medicine services. The selection committee also determined that SRSMG pricing was the most advantageous to the City and recommended that the City enter into contract negotiations with SRSMG.

ALTERNATIVE(S)

Do not approve a contract with SRSMG to provide the industrial medical services. With no contract City employees can be directed to industrial physicians in the community but without the savings outlined in this report. This is not recommended due to the increased expense that the City would incur for treating its industrially injured employees.

Respectfully submitted,

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LOPEZ/GJB/PB