

DATE ISSUED: December 1, 2004

REPORT NO. 04-266

ATTENTION: Honorable Mayor and City Council  
Docket of December 7, 2004

SUBJECT: Industrial Medicine Contracts

SUMMARY

Issue – Should the City Council approve respective two year agreements with Sharp Rees-Stealy Medical Group and U. S. Healthworks Medical Group, with three (3) one (1) year extension options, to provide industrial medicine services to City employees?

Manager's Recommendation – Approve the agreements with Sharp Rees-Stealy Medical Group and U.S. Healthworks Medical Group.

Other Recommendation – None.

Fiscal Impact – Expenditures of up to \$10,000,000 per year from the Workers' Compensation Fund (Fund Number 6029) are anticipated for the duration of the industrial medicine agreements. Sharp Rees-Stealy Medical Group and U.S. Healthworks will each receive a proportional share of these expenditures, based on employee utilization of their services, for providing various industrial medical services for City employees. Payments under this contract are made on a fee-for-service basis.

The cost of these contracts has increased relative to previous industrial medicine contracts. However, the rate of the City's Workers' Compensation cost increases should be greatly reduced as a result of the innovative structure of this arrangement.

In previous contracts, prior to this year's significant legislative reforms to the California Workers' Compensation system, the contracted industrial medical group had 30 days of medical control before the employee could exercise the right

to change to a physician outside the contracted medical group. Among other provisions of recent Workers' Compensation reform is the enhancement of the employer's or insurer's control of medical treatment. This has been legislatively achieved by allowing employers to create Medical Provider Networks (MPN's); i.e. networks of physicians, including specialists, from which injured employees must select physicians to treat their job related injuries.

Under this structure, with few exceptions the employee who wishes to change physicians is limited to those physicians within the MPN. Under some circumstances the employee may "pre-designate" a physician to provide initial treatment outside of the employer's MPN. However, as a practical matter most employees will receive treatment within the employers MPN.

The proposed contracts utilize SRSMG and USHMG physicians as the City's MPN. In consideration of the potential to receive the City's large volume of industrial medicine business, these medical groups were able to offer significant discounts and other favorable concessions. While the City's industrial medicine business will be concentrated within these groups, resulting in increased costs *under the contracts*, the overall cost of industrial medicine will be reduced under this structure relative to operating without contracts.

A further advantage of this structure is the inherent competition between the two contractors for market share of the City's business. Although employees will be limited to facilities and physicians within the City's MPN, they will still have many choices within the MPN. Employees will make selections of treating physicians based on service experience and reputation, which will translate into market share for the medical groups within the proposed system. Both groups are committed to exemplary service for our industrially injured employees.

## 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. All Workers' Compensation expenses are paid from the City's Workers' Compensation Fund. In recent years medical expenses have increased dramatically in San Diego, as they have state and nationwide.

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 provide the best medical care available to its injured workers, and to comply with Workers' Compensation benefit mandates and California Occupational Safety and Health Administration (Cal-OSHA) required testing, the City issued 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

Well coordinated industrial medical services ensure that City employees receive the best medical care available at discount pricing. The proposed 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.

## DISCUSSION

An Industrial Medicine Services RFP process 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

While initially recommending a single contractor last March, the Risk Management Department withdrew the recommendation to reconsider some pricing issues, and also to consider the impact of pending Workers' Compensation reform legislation that was gaining momentum. The delay allowed the City to explore new opportunities presented by the legislation to utilize the contracts for greater economic and service benefits.

In April of 2004 the much anticipated Workers' Compensation reform bill (SB 899) was passed by the state legislature to address the growing workers compensation crisis. The legislation established the Medical Provider Network (MPN). As discussed earlier, the MPN is a group of physicians, from various specialties, established by the employer to provide medical treatment to industrially injured employees throughout the life of their injuries. With limited exceptions, an injured employee can change physicians, but only within the MPN.

To take advantage of the MPN process the City has submitted an application to the State requesting that it certify our proposed MPN. In order to provide a robust medical panel and ensure the availability of specialty physicians both SRSMG and USHMG have been selected to provide medical treatment within the MPN. SRSMG and USHMG were the top two candidates in the RFP competitive bid process.

Both Sharp Rees-Stealy Medical Group (SRSMG) and U.S. Healthworks Medical Group (USHMG) have offered the City a 10% discount from the workers' compensation Official Medical Fee Schedule (OMFS), which establishes physician fees for various services. Additional savings occurred earlier this year when legislation reduced the OMFS to equal the Medicare reimbursement formula, which in many cases reduced the OMFS by 5% and established medical treatment utilization review guidelines.

Medical utilization review guidelines are nationally recognized medical treatment guidelines that provide guidance to physicians who treat injured workers. The guidelines are presumptively correct on the issue of extent and scope of medical care. The guidelines will ensure that the injured employee receives the appropriate medical treatment necessary to cure and relieve the effects of the injury, but also protect employers from excessive treatment costs.

SRSMG and USHMG have also provided stand-alone surgical center outpatient services at various locations in San Diego at a 10% discount below the OMFS, along with discounted pricing for Magnetic Resonance Imaging (MRI). The discounted pricing will decrease our overall yearly workers' compensation expenditures for these services.

The establishment of an MPN provides the City with the opportunity to ensure that the injured employee receives both appropriate and excellent medical care, on a consistent basis and at a discounted price through the services provided by SRSMG and USHMG.

#### ALTERNATIVE

Do not approve the contracts with SRSMG and USHMG to provide industrial medical services. With no contract City employees can be directed to industrial physicians in the community but without the discounts and service benefits 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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Bill R. Lopez  
Director  
Risk Management Department

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Approved: Cathy Lexin  
Human Resources Director

LOPEZ/GJB/PB

Attachments: 1. Sharp Healthcare contract  
2. US Healthworks contract