



City of Denton

City Hall
215 E. McKinney
Street
Denton, Texas

AGENDA INFORMATION SHEET

DEPARTMENT: Procurement

CFO: Cassey Ogden

DATE: November 15, 2022

SUBJECT

Consider adoption of an ordinance of the City of Denton, a Texas home-rule municipal corporation, authorizing the City Manager to execute a contract with United Healthcare Services, Inc., to provide Administrative Services Only (ASO) for Medical and Prescription Services for the City of Denton's self-funded health plans; providing for the expenditure of funds therefor; and providing an effective date of January 1, 2023 (RFP 7978 –awarded to United Healthcare Services, Inc., for three (3) years, with the option for two (2) additional one (1) year extensions, in the total five (5) year not-to-exceed amount of \$4,300,000.00).

INFORMATION/BACKGROUND

The City of Denton has a self-funded health plan. This means the City is responsible for funding medical and prescription claims rather than a fully-insured option where plan cost is paid through premiums to an insurance carrier. Being self-funded, the City has control of designing its benefits plans and premiums and, it also helps to control costs and understand healthcare spending.

To administer the self-funded health plan, the City contracts with a vendor for third-party administrator (TPA) services. United Healthcare has been providing TPA services for the City of Denton's self-funded health plan since January 1, 2009. These administrative services include processing all medical and pharmacy claims, provision of the medical networks and pharmacy facility networks, disease and case management services, reporting and data management, Centers of Excellence, formulary drug management, health plan compliance, stop loss coverage, and other services necessary to help manage the overall self-funded health plan. The current contract expires at the end of 2022, thus necessitating the Request for Proposal (RFP) process.

The City submitted RFP #7978 to the market and received five (5) responses from carriers:

- Aetna
- BlueCross BlueShield of Texas (BCBS)
- Cigna
- Healthcare Highway
- United Healthcare

The five (5) proposals were reviewed and scored by an evaluation team that included representatives from the City Manager's office, the City's Employee Insurance Committee (EIC), and staff members from Human Resources.

As part of the evaluation process, the bidders were requested to complete a detailed “re-pricing exercise” related to paid health and pharmacy claims. The re-pricing exercise is a key factor in evaluating the overall cost of services. The monthly per employee per month (PEPM) administrative fee accounts for approximately 3% of the total cost of the health plan, so the vast majority of costs come from medical and pharmacy claims. Because of this, the level of contracted discounts with the medical providers, the provider network, and the pharmacy rebates must be tested. In order to test this, each provider was asked to “re-price” the actual medical and pharmacy claims that the City paid between April 2021 through March 2022, to determine what the City would have paid had each company’s current discount structure and provider network been in place at that time.

United Healthcare had the lowest projected total claim cost for medical and prescription drugs, based on the repricing exercise. Additionally, United Healthcare is the incumbent carrier, so there will be no disruption to our employees, retirees, and dependents. United Healthcare also was competitive in its employee wellness programs, resources and tools, customer service metrics, claims processing, disease, and case management services, reporting and data management, Centers of Excellence offerings, network access, health plan compliance, and formulary drug management. Finally, United Healthcare has been a good partner for the City since 2009 in helping manage the City’s self-funded health plan.

The evaluation team ranked United Healthcare as the proposal that provided the best overall value for the City, employees, and retirees. The main differentiator between United Healthcare and the other bidders was the total cost and lack of disruption in network match and services.

Project Description	Estimated 5-Year Administrative Fee Expenditure***
Year 1	\$ 690,000
Year 2* (1,488 plus 10% = 1,637 count)	\$ 759,000
Year 3*	\$ 835,000
Year 4**	\$ 945,000
Year 5**	\$1,071,000
Total	\$4,300,000

**10% employee/retiree increase each year, starting with 2024 average count*

***10% employee/retiree increase each year for years 4 and 5, and a 3% rate increase*

****Admin fees rounded up to the nearest \$1,000*

Request for Proposals was sent to 95 prospective suppliers, including two (2) Denton firms. In addition, specifications were placed on the Procurement website for prospective suppliers to download and advertised in the local newspaper. Five (5) proposals were received, references were checked, and proposals were evaluated based upon published criteria including price, compliance with specifications, and probable performance. Best and Final Offers (BAFO) were requested from the top firm. Based upon this evaluation, United Healthcare Services, Inc. was ranked the highest and determined to be the best value for the City.

NIGP Code Used for Solicitation:	953 - (Service Only) - Insurance and Insurance Services, (All Types)
Notifications sent for Solicitation sent in IonWave:	95
Number of Suppliers that viewed Solicitation in IonWave:	13
HUB-Historically Underutilized Business Invitations sent out:	6
SBE-Small Business Enterprise Invitations sent out:	21
Responses from Solicitation:	5

RECOMMENDATION

Award a contract with United Healthcare Services, Inc., to provide Administrative Services Only (ASO) for Medical and Prescription Services for the City of Denton's self-funded health plans, in a three (3) year, with the option for two (2) additional one (1) year extensions, in the total five (5) year not-to-exceed amount of \$4,300,000.

PRINCIPAL PLACE OF BUSINESS

United Healthcare Services, Inc.
Minnetonka, MN

ESTIMATED SCHEDULE OF PROJECT

Services under this contract will begin on January 1, 2023, and will expire on December 31, 2027.

FISCAL INFORMATION

The costs associated with the administration of the ASO for medical and prescription services are funded by the Health Insurance Fund.

EXHIBITS

Exhibit 1: Agenda Information Sheet
Exhibit 2: Pricing Evaluation
Exhibit 3: Presentation
Exhibit 4: Ordinance and Contract

Respectfully submitted:
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Purchasing Manager

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Legal point of contact: Marcella Lunn at 940-349-8333.