



# *CITY COUNCIL AGENDA REPORT*

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MEETING DATE: April 18, 2006

ITEM NUMBER: VI-5

**SUBJECT:** Contract for Workers' Compensation Third Party Claims Administration Services

**DATE:** April 6, 2006

**FROM:** Administrative Services Department

**PRESENTATION BY:** Terri L. Cassidy, Human Resources Manager and Lisa Bartlow, Risk Administrator

**FOR FURTHER INFORMATION CONTACT:** Terri L. Cassidy, (714) 754-5115

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## **RECOMMENDED ACTION:**

Approve the continuation of a joint agreement to provide Third Party Administration claims services for the self-insured workers' compensation programs of the cities of Costa Mesa and Newport Beach, with Hazelrigg Risk Management Services, Inc. of Chino, California, for the term April 1, 2006 through December 31, 2006; authorize the Human Resources Manager to execute the Professional Services Agreement with the option for two one year extensions ending in August, 2008.

## **BACKGROUND:**

The City of Costa Mesa is a self-insured public entity that contracts with a Third Party Administrator (TPA) to provide necessary claims adjusting services. The City has contracted with Hazelrigg Risk Management Services, Inc. (HRMS) since July 1, 1995 for these services under a joint Professional Services Agreement with the City of Newport Beach. The partnership with Newport Beach and the contractual relationship with HRMS was the result of a comprehensive request-for-proposal (RFP) process undertaken by the two cities.

HRMS has provided claims services to the cities for the past ten years under the unique format of a dedicated claims unit that exclusively handles the workers' compensation injury claims of Costa Mesa and Newport Beach. In both 1998 and 2002, prior to presenting this contract renewal to City Council, a TPA market survey was conducted by staff to verify the status of industry pricing. Since the last formal RFP process was three years ago, it was appropriate to again conduct a formal request-for-proposal process to survey other companies that provide workers' compensation claims administration services, the quality of services available, and the competitiveness of our current pricing.

An RFP for claims administration services was mailed to sixteen (16) California TPA firms. Twelve firms (12) firms submitted proposals in response to the RFP.

## **ANALYSIS:**

The proposals were evaluated by the HR/Risk Management staffs of Costa Mesa and Newport Beach using criteria including experience in municipal claims administration, TPA staff qualifications and experience, ability to perform the services outlined in the RFP's scope of work, responsiveness to the RFP, and proposed fees. The eight firms listed on Attachment "A" were invited to panel interviews with the cities' representatives as well as an outside agency experienced Risk Manager.

Upon the conclusion of the panel interviews, the candidate pool was narrowed to three, eliminating firms based on the quality, reference checks, prior experience with companies and cost of services provided. More detailed background checks were done on the remaining firms, HRMS, SCRMA and Tristar. All of the three firms appeared as qualified and capable of providing the cities with the administrative services for this program.

A comparison of the annual fees proposed showed HRMS comparable to the other two finalists, at \$468,000 (\$234,000 per city) for the first year, exclusive of the use of other HRMS services such as bill review. Both cities had previously contracted with HRMS for bill review services. As a result of the RFP process, we found that HRMS did not provide the greatest cost savings on our medical bills. Therefore, both cities will be utilizing another medical bill review provider, Lien on Me, which should provide additional cost savings beyond what is allowable under the State fee schedule. Fees are based upon various pricing structures including a fee per medical bill, a flat fee for inpatient hospital bills and cost savings associated with the use of the vendor's Preferred Provider Organization (PPO). As a result, it is difficult to estimate the annual cost at this time.

Fees for the second and third year for claims administration will be approximately 4% - 4.5% higher than the prior year. Fees currently paid to HRMS are \$319,300 per annum (\$159,650 per city). Please note that there has been a significant increase in the cost of workers' compensation third party administration costs. The underlying reasons for that are increasing costs associated with the hiring and retention of the technical staff who administer claims, 30% benefit costs and with the implementation of SB899, SB227 and SB228 rules and regulations outlined by Governor Schwarzenegger. These bills made dramatic changes in many areas of workers' compensation in regards to the medical/legal procedures for both represented/unrepresented injured workers, permanent disability award ratings, utilization review of medical treatment specialists, medical provider networks (MPN), spinal surgery (2<sup>nd</sup> opinion procedures) and apportionment procedures.

There are also requirements that will soon be issued setting forth minimum standards of training, experience and skill for claims adjusters. Workers' compensation administration continues to be an extremely technical statutory benefit to administer and the ongoing costs for the administration alone will continue to escalate, particularly in response to legislative changes to the system.

Several joint meetings and conferences with vendors were held before making the final selection. There were many discussions about the current level of service that has been provided to both cities by the dedicated claims unit at HRMS and the overall quality of work. Both cities are satisfied with the services that have been provided by Hazelrigg, although changes have been made to the scope of work from previous years to insure that some areas are strengthened in terms of the performance expectations of each city.

We also discussed the potential disruption that would be brought about by the change in administrators as well as the additional costs associated with the data transfer and conversion. A change should only be considered when there are administration and service problems which cannot be rectified.

It is therefore recommended that based upon all of the information considered, that the workers' compensation claims administration services contract with HRMS should be continued. The City of Newport Beach will present a similar item to its City Council for approval on April 11, 2006.

**FISCAL REVIEW:**

Risk management has budgeted \$164,800 in the Self-Insurance Fund for workers' compensation claims third party administration expenses. The proposed contract will result in added expenditures of \$13,437.50 for FY 05-06. This added cost will be paid for with savings from excess workers' compensation insurance premiums, which were \$34,774 under budget.

**LEGAL REVIEW:**

The attached Professional Services Agreement has been reviewed and approved as to form by the City Attorney.

**CONCLUSION:**

As a result of a thorough RFP process with the City of Costa Mesa and the City of Newport Beach, Hazelrigg Risk Management Services, Inc. has been selected as the top candidate from twelve firms submitting proposals. They have extensive experience administering municipal workers' compensation claims programs and have contracted with the City of Costa Mesa since 1995. Continuation of the contract with HRMS will provide an administratively stable and efficient program.

It is recommended that the City Council authorize the Human Resources Manager to execute the professional services agreement with Hazelrigg Risk Management Services, Inc. for the workers' compensation programs of the cities of Costa Mesa and Newport Beach beginning April 1, 2006.

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DISTRIBUTION: City Manager  
City Attorney  
City Clerk  
Department Directors

ATTACHMENTS: A [Listing of Proposals Received And Cost Comparison](#)  
B [Professional Services Agreement](#)  
C [Request for Proposal](#)  
D [Response to Request for Proposal](#)

File Name

Date

Time