



CITY COUNCIL AGENDA REPORT

MEETING DATE: July 3, 2007

ITEM NUMBER:

SUBJECT: Contract for Third Party Liability Claims Administrative Services

DATE: June 21, 2007

FROM: Administrative Services Department

PRESENTATION BY: Terri L. Cassidy, Human Resources Manager

FOR FURTHER INFORMATION CONTACT: Debra Yasui, Human Resources Administrator,
714-754-5052

RECOMMENDED ACTION:

Approve the professional services agreement, Attachment A, with Carl Warren & Company for third party liability claims administration services for a three (3)-year term from July 1, 2007 through June 30, 2010; authorize the Mayor to execute the professional services agreement in an amount not to exceed \$75,000.

BACKGROUND:

As a self-insured public entity, the City contracts with a third party administrator (TPA) for the necessary claims adjusting services. TPAs have personnel with specialized skills and knowledge that allow them to effectively and efficiently work with claimants and attorneys in investigating, negotiating and settling liability claims made against the City. The TPA acts as the primary investigator of liability claims and serves in an advisory role to City staff by making recommendations on the appropriate disposition (settlement or denial) of claims.

The City of Costa Mesa has contracted with Carl Warren & Company, one of the largest and most respected TPAs in the west, since 1989. Services provided by Carl Warren & Company have remained at a consistently high quality level. Due to the fact that it has been seven years since the City competitively bid liability TPA services, formal market exploration was necessary to insure the City is getting the best service at a fair price.

During this same time frame, the City of Newport Beach was considering issuing a Request for Proposal (RFP) for liability TPA services. As a result, the City of Costa Mesa, for administrative efficiency, coordinated a joint RFP for liability TPA services. RFP documents, Attachment B, were mailed to 22 firms providing TPA services. Some had asked to be contacted when this was being bid and others were contacted based upon their reputation and quality of services seven firms submitted proposals in response to the RFP. These firms were: Gregory B. Bragg & Associates, Inc., Tristar Risk Management, Carl Warren & Company, NovaPro Risk Solutions, Hazelrigg Risk

ANALYSIS:

Proposals were evaluated by the Costa Mesa and Newport Beach Risk Management professionals using criteria including experience in municipal claims administration, proposed staff qualifications, ability to perform services outlined in the RFP's scope of work, and proposed fees. The three (3) highest rated firms, Carl Warren & Company, NovaPro, and Gregory B. Bragg & Associates (Bragg) were invited for further personal interviews.

Based upon performance in the interviews and representatives who would be assigned to our account, Carl Warren & Company was the firm selected. This is primarily because Carl Warren & Company has extensive municipal claim administration experience and currently adjusts claims for approximately 30 Orange County cities including Fountain Valley, Huntington Beach, Laguna Hills, Mission Viejo, San Juan Capistrano and Garden Grove. In addition, Carl Warren & Company is also very familiar with City operations, staff and policies. The proposed adjuster has worked on the Costa Mesa account for 14 years and has built cooperative working relationships with City Human Resources staff and the City Attorney's office. They have also been very good at keeping our claims manageable with excellent claims investigations, aggressive and fair settlement negotiations. They are responsive to the City's needs and proper reserving techniques have resulted in tight financial controls.

All firms submitted proposals based on a "time and expense" fee schedule. Attachment C shows the proposed fees of each firm and the current Carl Warren & Company fees. The proposed Carl Warren & Company hourly rate is 6% higher than current rates, while the other firms propose hourly rates 6% higher and 12% higher than current rates. Carl Warren & Company's rates remain very competitive in this industry.

ALTERNATIVES CONSIDERED:

The City could bring liability claims administration in-house. The potential cost of an in-house administration program is estimated to exceed anticipated contract costs. A claims adjuster position at the midpoint of a Human Resources Analyst classification costs approximately \$90,000 per year in salary and benefits. In addition, office space and furniture, field investigative equipment, a professional camera for scene photographs, a personal computer and specialized risk management claims software would need to be purchased. Claims software can cost between \$10,000 and \$40,000 per license, not including annual license fees, maintenance and custom programming.

TPA firms such as Carl Warren & Company have a vast array of resources at their disposal including professional appraisers and access to experts such as accident reconstructionists, medical specialists, and undercover investigators which the City would have to contract for as the need arose.

Staff concludes that contracting for this service would be more cost effective and efficient than an in-house claims administration program at the present time.

FISCAL REVIEW:

Fees paid to Carl Warren & Company have averaged \$53,200 per year, increasing in recent years due to more aggressive litigation management. By applying the fee schedule quoted by Carl Warren & Company to the expected annual claims volume, annual fees of \$60,000 are anticipated for the initial contract year. The Risk Management Section has budgeted \$75,000 during FY 2007/08 for liability claims TPA services which is sufficient to cover anticipated contract costs.

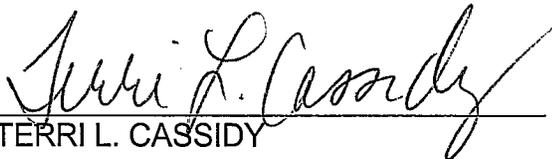
LEGAL REVIEW:

The attached Professional Services agreement has been prepared by the City Attorney and is approved as to form. Carl Warren & Company has established an effective working relationship with the City Attorney's office.

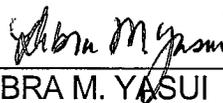
CONCLUSION:

As a result of a thorough RFP process, Carl Warren & Company has been selected as the top candidate from the seven firms submitting proposals. Carl Warren & Company has extensive experience administering municipal claims programs and currently contracts with most cities in Orange County. In addition, Carl Warren & Company has contracted with the City of Costa Mesa since 1989 and Carl Warren & Company staff are very familiar with City operations. The adjuster assigned to the City has worked on the Costa Mesa account for 14 years and has developed cooperative relationships with City staff. Finally, Carl Warren & Company's proposed fees are among the lowest quoted in the proposals received and are guaranteed for three years.

It is recommended the City Council approve the professional services agreement with Carl Warren & Company for third party liability claims administration services for a three (3)-year term from July 1, 2007 through June 30, 2010; authorize the Mayor to execute the professional services agreement in an amount not to exceed \$75,000 per year.



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KIMBERLY HALL BARLOW
City Attorney

Attachment A: Professional Services Agreement
Attachment B: Request for Proposal #063007RM
Attachment C: Proposal Cost Comparison

CC City Manager
City Attorney
City Clerk
Department Directors