



CITY COUNCIL AGENDA REPORT

MEETING DATE: JANUARY 5, 2010

ITEM NUMBER:

SUBJECT: AWARD RFP 1134 - CONTRACT FOR THIRD PARTY WORKERS' COMPENSATION CLAIMS ADMINISTRATION SERVICES

DATE: DECEMBER 21, 2009

FROM: ADMINISTRATIVE SERVICES – HUMAN RESOURCES DIVISION
FINANCE DEPARTMENT – FINANCIAL PLANNING DIVISION

PRESENTATION BY: DEBRA YASUI, HUMAN RESOURCES ADMINISTRATOR/RISK

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DON STOCKER, BUYER (714) 754-5227

RECOMMENDATION:

1. Award contract for Third Party Workers' Compensation Claims Administration Services per Request for Proposal (RFP) 1134 to CorVel Corporation of Rancho Cucamonga, California, 91730. The term of the contract is from January 1, 2010, through December 31, 2013, with the option to extend the contract for two additional one-year terms.
2. Authorize the Mayor and the City Clerk to execute the Professional Services Agreement for the contract (Attachment I).
3. Authorize the City Manager to extend the contracts for two additional one-year terms upon recommendation from the Administrative Services Department.

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 for these services with Hazelrigg Risk Management Services and then CorVel Corporation since 1995, under a cooperative professional services agreement with the City of Newport Beach. The original contract was awarded to Hazelrigg Risk Management Services which was acquired by CorVel in February 2007. The contract expired on December 31, 2008. On January 20, 2009, City Council approved agreements with CorVel extending services through December 31, 2009. The claims needs of both Costa Mesa and Newport Beach provided an opportunity for CorVel to establish a dedicated claims unit that could exclusively handle the workers' compensation injury claims for both cities.

The last RFP process was conducted in late 2005, and there are no remaining extensions on the contract. As such, it was appropriate and in the City's best interest to conduct a formal request-for-proposal process to see what other claims administration companies offer, the quality of services available and comparisons of pricing. The City of Newport Beach expressed interest in participating in a cooperative solicitation with the City of Costa Mesa serving as the lead agency.

As required by the Costa Mesa Municipal Code, staff sent the "Request for Proposals" (RFP) (electronically) to twenty-nine (29) prospective California TPA firms including qualified providers whose names were on the bidders' list, and other vendors requesting information. To ensure adequate notice and competition, the RFP was also posted on the public bulletin board in City Hall and published in the Daily Pilot. A downloadable version of the RFP was also made available on the City's website.

On August 19, 2009 a non-mandatory pre-proposal meeting was held in Conference Room 1A. The purpose of the pre-proposal meeting was to provide an opportunity for third party claims administration providers to request clarification and explanation of RFP requirements. Thirteen prospective firms were represented by the fifteen attendees at the pre-proposal meeting. The Buyer served as the meeting chair with Human Resources staff from both cities to answer technical questions. An addendum was issued on August 26, 2009, to address the clarifications discussed in the pre-proposal meeting. On September 4, 2009, the City received thirteen (13) proposals. Of the thirteen proposals received, three were disqualified due to non-compliance with the RFP. One provider did not have a current California TPA license, and one did not have business offices in Southern California as required in the RFP. The third disqualified provider was non-compliant in both criteria above.

ANALYSIS:

The cities jointly participated in a comprehensive formal RFP process which began in August 2009 and concluded in November 2009 with final selection and price negotiations. The intent of the solicitation was to award a contract to one of the highest scoring TPA providers that could best meet the needs of both agencies. In order to ensure a fair and objective RFP process, the evaluation process was facilitated by Costa Mesa purchasing staff. Although pricing is an essential part of the contract, the RFP process allowed staff to consider additional factors during the evaluation process. The criteria used for evaluating the proposals included method of approach, pricing, support and services, and qualifications and experience. A five-person evaluation team was assembled and all members were instructed to conduct their evaluations independently of each other. The evaluation team included representation from both Costa Mesa and Newport Beach Human Resources/Risk Management and two additional evaluators from outside agencies with expertise and experience in workers' compensation TPA contracts and services. The top six (6) firms were recommended for advancement in the evaluation process and were invited to an oral interview.

Upon the conclusion of the oral interviews, the candidate pool was narrowed to two firms: the incumbent CorVel Corporation and AdminSure. Both firms appeared well qualified and capable of providing the cities with the claims administration services for this program. The two providers were invited back for second interviews and were given the opportunity to submit a Best and Final Offer.

After careful review and consideration of the best and final offers, Costa Mesa and Newport Beach both recommend awarding the contract to CorVel Corporation. It will be a cooperative agreement that allows for the dedicated unit currently in place to serve both cities. Overall, the cities are satisfied with the services that have been provided by CorVel. Their assigned staff have demonstrated professionalism, expertise and consistency in claims adjusting.

Another factor taken into consideration was the disruption that may occur with a change of claims administrators and the additional costs that will be incurred for the data transfer and conversion of files. Continuing with CorVel should provide for stability and efficiency of the program. Further, the RFP process requested "proportionate" pricing and as a result, CorVel's Best and Final Offer resulted in a reduction of Costa Mesa's current fees as Newport Beach has a greater caseload than Costa Mesa. Costa Mesa's average cost during the first year (of the contract) from all proposals received was \$190,776. The Best and Final Offer pricing provided by CorVel was \$22,776 less than this average.

At the conclusion of their final discussions with CorVel, the City of Newport Beach made a recommendation to their City Council on December 8, 2009, and the contract was approved. As the deadline for the December Costa Mesa City Council meeting had passed, approval of the new agreement was postponed until the first meeting in January. In the interim, an amendment to extend the current agreement with CorVel until January 5, 2010, was prepared and approved by the City Manager (Attachment II).

ALTERNATIVES CONSIDERED:

Qualified staff members from multiple agencies have invested numerous hours independently evaluating and scoring the solicitations received. The Purchasing Division served as the facilitator of the solicitation to ensure the process was fair and thorough.

During the evaluation process, the alternative of awarding separate contracts was considered; however based on the Best and Final Offer and further negotiations with CorVel, it has been determined that all parties prefer to keep this a cooperative contract with a dedicated claims unit specific to Costa Mesa and Newport Beach.

FISCAL REVIEW:

Funds for workers' compensation claims TPA services for Fiscal Year 2009-2010 were budgeted in the self-insurance fund based on the amount of the prior agreement and an estimated increase for the first half of 2010. As part of the Best and Final Offer, staff requested that the pricing be proportionate based on each City's respective caseloads. For 2010, this new proportionate pricing of \$168,000 will result in a cost savings for Costa Mesa of \$92,669 from the amount of \$260,669 paid in 2009. CorVel has proposed three percent (3%) cost increases in the second and third years of the contract which result in costs of \$173,040 and \$178,231, respectively. Pricing adjustments for years four and five will be two percent (2%). This contract will result in a savings to Costa Mesa of \$262,736 during the first three years of the contract based on the fees paid in 2009.

LEGAL REVIEW:

The attached Professional Services agreement has been reviewed and approved as to form by the City Attorney's Office.

CONCLUSION:

After thorough evaluation, review and scoring of the thirteen proposals received, it is recommended that the City Council award a three-year contract per RFP 1134 for third party workers' compensation claims administration services to CorVel Corporation, effective January 1, 2010. In addition, it is recommended that City Council authorize the Mayor and the City Clerk to execute the Professional Services Agreement and to authorize the City Manager to extend the contract for two additional one-year terms upon recommendation by the Administrative Services Department.

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ATTACHMENTS: [I - Professional Services Agreement](#)
[II - Amendment Number Two to Agreement for Workers' Compensation
Claims Administration](#)