

July 6, 2006

Honorable Mayor and Members of
The Hermosa Beach City Council

Regular Meeting of
July 11, 2006

**Approval of Recommendation for Third Party Administration of
Workers' Compensation Claims**

Recommendation:

It is recommended that the City Council approve a proposal for third party administration of the City's workers' compensation claims submitted by Southern California Risk Management Associates and authorize the City Manager to negotiate and execute a contract for an approximate three (3) year term commencing August 1, 2006 with an option for extending up to an additional two years.

Background:

The contract with the existing third party administrator, Hazelrigg Risk Management Services expired June 30, 2006. Hazelrigg Risk Management agreed to continue on a month to month basis until the RFP process was completed. Staff prepared and solicited a Request for Proposals (RFP). The RFP was developed using a standard format previously used that defines the general scope of work. In addition, a set of performance standards developed by the Independent Cities Risk Management Authority (ICRMA) was also incorporated into the RFP. These performance standards define 42 requirements that the TPA must meet in providing claims administration services. Staff also used the services of Bickmore Risk Services, the company that provides the administration and management for ICRMA, to assist in developing the RFP, reviewing the proposals, and participating in the interview process. A total of twelve (12) responses to the RFP were received. Following a review of the proposals, six companies were invited to an interview. In addition to the Finance Director and Personnel & Risk Management Director, Lynn Keller of Bickmore Risk Services, who serves as the manager of the workers compensation program for ICRMA, participated in the interviews.

Analysis:

In evaluating the proposals staff considered the following criteria: cost of proposed services, experience of the company including experience in serving clients with public safety departments, company philosophy, approach to claims management and loss control, examiner experience, caseload of examiners, reserving practices, file reviews, loss performance reports, approach to return to work programs, claims information systems, optional loss control services, and ability to meet performance standards. Key

overriding considerations were the company's ability to provide a proactive claims management approach that ensures proper benefits are provided to the injured worker, focuses on early claim resolution, and works as a partner in reducing the City's overall cost of risk for its workers' compensation claims program. In this process, staff has set out to obtain a higher level of service in claims administration than previously required.

Southern California Risk Management Associates has extensive experience in claims administration for public entities including providing services for 97 California cities and over 340 self-insured California employers. 90% of SCRMA's existing clients are public agencies in California. SCRMA consistently receives excellent State audit results and has performed very well in audits conducted by ICRMA workers compensation program managers. SCRMA also reports a 97% client retention rate since its inception in 1988. SCRMA requires all examiners to obtain certification in claims administration and maintains lower caseloads helping to ensure that proper oversight is maintained by qualified personnel. In addition, SCRMA has emphasized their experience in administering claims for public safety employees and focusing on loss reduction. SCRMA will provide regular loss reports, medical savings reports, and other loss trend analysis to assist the City in determining areas in which to focus its loss control efforts. SCRMA provided a comprehensive response to the request for proposals and was very impressive in response to questions posed during the interview process.

In accordance with the City's Administrative Policy on professional services, companies are not selected on a competitive bid process based on the lowest cost service provider. Rather, proposals are to be evaluated to determine the most responsive and qualified provider, with cost of service as one factor.

Among the twelve proposals submitted, the service fees quoted ranged from \$29,504 to \$79,882 for the first year. The current service fees are \$28,645 per year. In anticipation of accepting proposals, \$45,000 was approved in the current 2006/2007 budget for third party claims administration services.

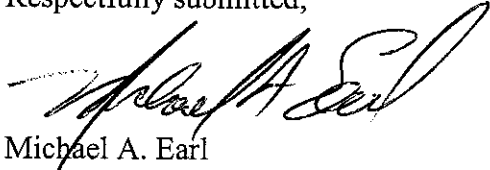
SCRMA fees for the initial service period (11 months, August 1, 2006 through June 30, 2006) are to be \$33,810. In addition, there will be a data conversion fee up to \$7,000. SCRMA has included in their proposal the annual licensing fee for access to their on-line claims software at no additional charge. In the second and third year of the contract, the fees would increase no more than 3% per year. If the number of reported claims goes down, SCRMA will reduce their fees accordingly. A three-year contract is proposed with an option for a two-year renewal based on performance as recommended by the City Manager and Personnel Director.

Copies of each of the proposals submitted are available for review in the Personnel Office.

Fiscal Impact:

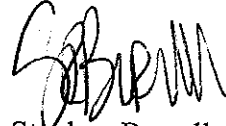
The fiscal impact of approving the proposal with SCRMA is a three-year total cost of \$117,928 including all start-up costs. Adequate funds are budgeted in the current 2006/2007 budget for all first year costs.

Respectfully submitted,



Michael A. Earl
Personnel & Risk Management Director

Concur,



Stephen Burrell
City Manager