



**FINANCE AND BUDGET COMMITTEE
JULY 19, 2006**

**SUBJECT: CONTRACT PS-5310-1807 FOR GENERAL LIABILITY CLAIMS
ADMINISTRATIONS SERVICES**

**ACTION: AWARD CONTRACT FOR GENERAL LIABILITY CLAIMS
ADMINISTRATION TO HERTZ CLAIMS MANAGEMENT (HCM)**

RECOMMENDATION

- A. Authorize the CEO to award a 10-year, fixed-price contract, Contract No. PS-5310-1807, to Hertz Claim Management (HCM) for general liability claims administration services, in an amount not to exceed \$28,742,400 inclusive of seven one-year options, effective September 1, 2006. In addition, award a 25% of incentive-based recovery fee for any liability claims expenditures recovered by Hertz.
- B. Authorize the CEO to negotiate and amend the 10-year contract with HCM to replace the circa 1987 claims system with a new general liability claims system for a fully implemented cost not to exceed \$2,700,000 over the 10 year period of this contract.

RATIONALE

Metro is self-insured for up to the first \$4,500,000 per occurrence and uses the services of a third-party administrator (TPA) to investigate, evaluate and resolve all general liability claims valued at \$50,000 or less. Metro receives approximately 3,000 new claims per year valued at less than \$50,000 and maintains an open inventory in excess of 2,000 claims with between 800 to 1,000 checks issued monthly. The expertise and infrastructure of a professional TPA in resolving these claims is essential for structuring a competitive and cost-effective program. The contract with the current TPA, HCM expires August 31, 2006.

BACKGROUND

HCM was founded in 1981 after years of managing the claims settlement process for Hertz rental cars, the largest auto and capital-equipment rental company. HCM maintains nine field offices nationwide and eight international offices servicing such clients as ACE Insurance, Reliance Insurance and Allegheny County, Pennsylvania.

In 1998, Metro brought claims administration in-house for claims valued at \$50,000 and greater, reducing contract costs and allowing for better control of high value claims by Metro executive management and better coordination with counsel. Today, two Risk Management staff administers approximately 150 claims valued at more than \$50,000 while the TPA administers approximately 2,000. The frequency of the smaller claims requires a TPA infrastructure to handle investigation, litigation management and the like. HCM also provides staff with administrative support for the MTA in-house adjustment of claims in excess of \$50,000, including a claims administration computer system and check printing.

HCM has provided acceptable claims administration services to Metro since 1987. The September 2005 audit of HCM by Thompson, Cobb, Bazilio and Associates found proper internal controls including the segregation of duties, payment authorization, oversight and monitoring. HCM also demonstrated superior performance in the most critical aspects of claims administration; claims settlement and reserving.

Subrogation of losses against a responsible third party is part of the services provided by HCM. Metro has been recovering from \$400,000 to \$500,000 annually through subrogation or cross complaints and HCM will be receiving an incentive fee of 25% or roughly \$120,000 annually. The procurement summary specifies the proposal amount of \$28,792,400 including an estimate of subrogation recovery fees used for evaluation purposes only. The best and final offer of \$28,992,400 reflects mathematical corrections to the original proposal. Recommendation A excludes this recovery estimate (\$250,000) and asks for Board approval of 25% of total recoveries. Contract incentives for subrogation recoveries are consistent with industry best practice since they encourage the TPA to recover as much as possible from third parties.

HCM's current computing environment consists of a mainframe (legacy) system using an IBM DB2 relational database that dates back to 1987, with physical data storage in Oklahoma City. This mainframe architecture is inflexible and complex. The user interface is text based and difficult to use without extensive training for new employees. Retrieval of information from the current system is hampered by significant limitations. For example, HCM recently received a request from Metro executive management to identify wheelchair passenger injury claims. The claims system does not support a text based search of claim notes that was necessary to retrieve that information.

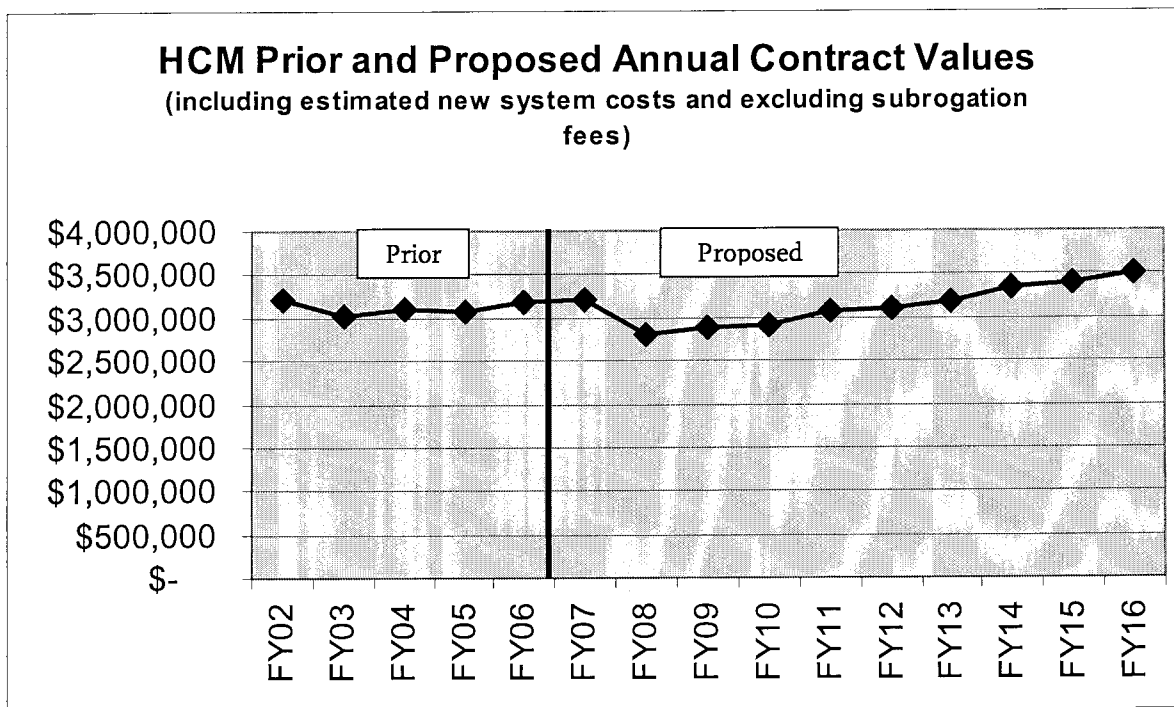
Further, the *ad hoc* report writer is difficult to use, requiring a high level of knowledge about the system's physical structure. Reports run from the *ad hoc* reporting system cannot be exported into user's PC applications to create charts, spreadsheets or graphs, nor can these reports be saved into other formats.

The current system cannot support images of any kind. So, billings, medical records, legal briefs, photos, security camera videos and other records need to be stored in a physical file, subject to loss or damage. Detailed financial information on claims is not directly accessible to Metro staff. Hence, information such as the number of checks issued monthly, or a list of payees monthly needs to be requested directly from HCM and run on an *ad hoc* basis. Data requests to HCM can take multiple days, or longer, depending on the complexity of the request.

The most serious limitation of the existing system is its inability to share data with Metro’s enterprise solutions such as FIS (Financial Information System), M3, HR (Human Resources) and VAMS (Vehicle Accident Management System). Currently, HCM needs to request hardcopy information from the operating locations, Risk Management, Human Resources, Information Technology and others. For example, the Operating Divisions are required to send HCM hard copy Equipment Damage Reports (EDRs) used in estimating parts and labor costs for repairing vehicular damage. HCM uses this information to file subrogation claims against parties responsible for the accidents. The electronic transfer of this information to a new claims system through the integration and upgrade of the M3 system could greatly improve the number and quality of subrogation recoveries. Rather than requesting CDs of traffic accidents, Risk Management could pull video images directly from the video storage system to the claims system.

The estimated system costs are shown in Attachment B and were derived from estimates provided by two system vendors that Metro currently or formerly used for the provision of claims software and services. The system cost estimates includes data conversion, hardware, initial licenses, annual maintenance fees and other expenses over the 10-year contract term.

Even with the implementation of a new claims system, the estimated contract cost for FY07 is just 1% above the FY06 contract. For FY08, after the new system is implemented, the contract cost drops well below the FY06 contract value. HCM, over the course of prior contract years, has demonstrated a willingness to absorb inflationary increases through various efficiencies (See below and Attachment B).



FINANCIAL IMPACT

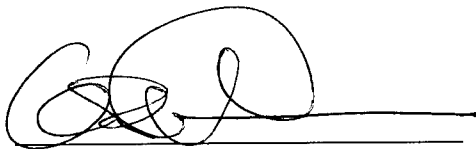
Funding of \$3.3M for this service, inclusive of subrogation fees, is included in the FY07 budget in cost center 0531, Risk Management Operations non-departmental, under project 300003, General Liability Chargeback. In FY06 \$3.3 million has been expended for TPA services inclusive of subrogation incentive fees.

ALTERNATIVES CONSIDERED

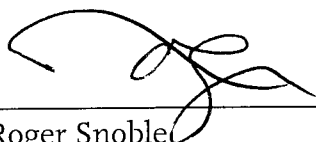
Metro could self-administer the claim inventory which would require between 30 and 40 additional FTEs. In addition, Metro would incur additional expenses for the purchase of computer equipment, software licenses and professional services for a data migration project and the transfer of large numbers of paper files. Costs for this activity, although not known with certainty, would be similar to the costs of contracting for this service.

ATTACHMENTS

- A. Procurement Summary
- B. Total Costs

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Greg Kildare
Executive Officer
Risk Management

A handwritten signature in black ink, featuring a large loop at the top and several smaller loops below it, ending in a horizontal stroke.

Roger Snoble
Chief Executive Officer

**PROCUREMENT SUMMARY
CONTRACT PS-5310-1807 FOR GENERAL LIABILITY
CLAIMS ADMINISTRATIONS SERVICES**

1.	Contract Number: PS-0531-1807		
2.	Recommended Vendor: Hertz Claim Management		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: \$28,992,400.	Recommended Price: \$28,992,400.	
	B. Details of Significant Variances are in Attachment A-1.D		
4.	Contract Type: Firm Fixed Price		
5.	Procurement Dates:		
	A. Issued: February 23, 2006		
	B. Advertised: February 24 & 27, 2006, March 2, 2006		
	C. Pre-proposal Conference: March 3, 2006		
	D. Proposals Due: March 31, 2006		
	E. Pre-Qualification Completed: April 25, 2006		
	F. Conflict of Interest Form Submitted to Ethics: April 20, 2006		
6.	Small Business Participation:		
	A. Bid/Proposal Goal: 18.00% DBE	Date Small Business Evaluation Completed: May 1, 2006	
	B. Small Business Commitment: 18.04% Details are in Attachment A-2		
7.	Invitation for Bid/Request for Proposal Data:		
	Notifications Sent: 17	Bids/Proposals Picked up: 37	Bids/Proposals Received: 3
8.	Evaluation Information:		
	A. Bidders/Proposers Names: Cambridge Sedgwick CMS Hertz Claim Management Inc.	<u>Bid/Proposal Amount:</u> \$ Non-Responsive \$48,760,584 \$28,792,400	<u>Best and Final Offer Amount:</u> \$ N/A \$44,876,869 \$28,992,400.
	B. Evaluation Methodology: Best Value-Numerically Scored (explicit factors) Details are in Attachment A-1.C		
9.	Protest Information:		
	A. Protest Period End Date:		
	B. Protest Receipt Date: N/A		
	C. Disposition of Protest Date: N/A		
10.	Contract Administrator: Maria V. Lechuga	Telephone Number: 922-7206	
11.	Project Manager: Juanita Welch	Telephone Number: 922-4956	

**PROCUREMENT HISTORY
CONTRACT PS-5310-1807 FOR GENERAL LIABILITY
CLAIMS ADMINISTRATIONS SERVICES**

A. Background on Contractor

Hertz Claim Management's (HCM) home office is located at 225 Brae Boulevard, Park Ridge, New Jersey. The Hertz brand name is recognized worldwide as a leader in quality rental services and products. The company, together with its affiliates, associates and independent licensees, currently rents cars and industrial and construction equipment and operates its other businesses from over 7,200 locations throughout the United States and in over 150 foreign countries and jurisdictions.

HCM, a wholly owned subsidiary of The Hertz Corporation, has been in business since 1981 and is backed by the reputation, resources and financial strength of The Hertz Corporation. Hertz has provided HCM with the stability to develop an ever-expanding portfolio of TPA clients nationwide. HCM provides claim administration services to The Hertz Corporation and to outside customers. These services include investigating, evaluating, negotiating and disposing of a wide variety of claims, including third party, first party, bodily injury, property damage, general liability and product liability, but not the underwriting of risks. HCM conducts business at nine regional offices in the United States and separate subsidiaries of the company conduct similar operations in seven countries throughout Europe.

HCM has been the Public Liability/Property Damage Claim Administrator for Metro, since December of 1987. During the past 18 years, HCM has consistently strived to provide excellent service and meet the ever changing needs and expectations of Metro.

B. Procurement Background

The Request for Proposal (RFP) was issued on February 23, 2006. The RFP required the proposers to provide a fixed-price for a three-year base contract with seven (7) one-year options, with the understanding that the price for Years 1 through 3 will be firm. The annual Contract prices for each option year (four through ten) may be re-determined as follows: If the average number of claims in the open claims inventory either increases or decreases by 10% or more during any contract year, either party may seek an equitable adjustment to the Fixed Price for the following eligible contract year.

The procurement was a standard Request for Proposal in compliance with MTA Procurement policies and procedures. Recommendation for award is being made to the proposer with the lowest price who provides the best overall value to Metro. The proposer has been determined to be both responsive and responsible.

C. Evaluation of Proposals

Thirty-seven (37) firms requested the RFP; however, only three firms submitted proposals on March 31, 2006. The three firms were Cambridge Integrated Services, Inc., Sedgwick Claims Management Services, Inc. and Hertz Claims Management. The proposal submitted by Cambridge was deemed non-responsive because it did not satisfy the minimum criteria established for this effort (the project manager was required to have at least ten (10) years current experience in government tort claims adjusting in California and a minimum of five (5) years current management experience in the government tort claims field; the proposed manager's experience did not meet the requirement). The evaluation criteria in the RFP stated that the proposers must pass the minimum requirements to be considered further. Since Cambridge did not pass the minimum requirements, Cambridge was not further evaluated.

Sedgwick and Hertz were both well qualified to provide the services required. Hertz Claim Management was the highest rated proposer and had the lowest price.

D. Cost/Price Analysis Explanation of Variances

The recommended price has been determined to be fair and reasonable based upon anticipated competition as well as price analysis including the historical prices utilized by the incumbent in the last five years. The proposal amount of \$28,992,400. does not match the Board Report recommendation amount of \$28,742,400 because it includes an estimate of subrogation recovery fees that are used for evaluation purposes only. Subrogation recovery fees will be included in the contract, but not priced as they will be 25% of whatever is recovered.

**LIST OF SUBCONTRACTORS
CONTRACT PS-5310-1807 FOR GENERAL LIABILITY
CLAIMS ADMINISTRATIONS SERVICES**

PRIME CONTRACTOR – Hertz Claim Management

Small Business Commitment

Subcontractors

18.04%

Fu-Gen Investigation, Inc.

Total Commitment 18.04%

ATTACHMENT B

		TOTAL COSTS (Excluding Subrogation Incentive Fees)														
		FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
FIXED PRICE CONTRACT	\$	3.2	3.0	3.1	3.1	3.2	2.6	2.6	2.7	2.7	2.8	2.9	3.0	3.1	3.2	3.2
NEW CLAIMS SYSTEM ESTIMATE		-	-	-	-	-	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.2	0.3
TOTAL	\$	3.2	3.0	3.1	3.1	3.2	3.2	2.8	2.9	2.9	3.1	3.1	3.2	3.4	3.4	3.5