



CITY OF SACRAMENTO

38

CITY MANAGER'S OFFICE
RECEIVED
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DEPARTMENT OF FINANCE
915 I STREET
ROOM 112
SACRAMENTO, CALIFORNIA 95814
TELEPHONE (916) 449-5736

JACK R. CRIST
DIRECTOR OF FINANCE
FRANK MUGARTEGUI
ASSISTANT DIRECTOR

March 28, 1980

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: BROWN BROTHERS ADJUSTERS-SELF INSURED
AUTOMOBILE AND GENERAL LIABILITY CLAIMS
ADMINISTRATION AGREEMENT AMENDMENT.

SUMMARY

The attached report recommends that the City amend its current agreement with Brown Brothers Adjusters.

BACKGROUND

At the April 8, 1980 meeting of the Budget and Finance Committee, the Committee approved the report and directed staff to forward it to the City Council for adoption.

RECOMMENDATION

It is recommended that the City Council adopt the attached Resolution.

Respectfully submitted,

Frank Mugartegui
Frank Mugartegui
Assistant Director of Finance

RECOMMENDATION APPROVED:

Walter J. Slips
Walter J. Slips
City Manager

APPROVED
BY THE CITY COUNCIL

APR 8 1980

OFFICE OF THE
CITY CLERK

April 8, 1980
All Districts

A- 79223

FM:m1

FA:80147

Attachment

cc: Ora Scheel, Munn, McLaurin & Co., 100 Bush St., S.F. 94104

Risk Management & Insurance Committee



CITY OF SACRAMENTO

8

DEPARTMENT OF FINANCE
915 I STREET
ROOM 112

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ADMINISTRATION AGREEMENT AMENDMENT.

SUMMARY

This report recommends that the City amend its current agreement with Brown Brothers Adjusters.

BACKGROUND

In 1976, when the City began self-insuring its Automobile and General Liability, we entered into a three-year (1/20/76-1/20/79) agreement with E.S.I.S. for claims administration for \$100,000 (1st year, \$40,000; 2nd year, \$30,000; and 3rd year, \$30,000). In October of 1976, prior to the end of the first year of the agreement, E.S.I.S. requested an increase for their fee for the second year (1/20/77-1/20/78) from \$30,000 to \$40,500 or 68.3%, based on the substantial increase of claims frequency.

At this point, quotations for second-year claims administration services were requested based on projected claims of 700 per year. Proposals were received from the following firms:

	<u>Fee</u>
Brown Brothers Adjusters	\$38,500
Underwriters Adjustment Company	41,500
General Adjustment Bureau	42,800
R. L. Kautz & Co.	43,500
E.S.I.S.	50,500

The subsequent events that have taken place following the receipt of the above proposals are as follows:

- 1) The City entered into a one-year (1/20/77-1/20/78) agreement (A-76182) with Brown Brothers Adjusters for claims administration at a fee of \$38,500 (including a \$3,500 broker commission);
- 2) In January of 1978, the City Council authorized the City Manager to enter into a three-year (1/20/78-1/20/81) First Amendment to Agreement A-76182 with a 12% fee increase for the first year and that fee changes for subsequent years will be based on the December CPI for the San Francisco-Oakland Area -- first year fee \$43,120 (including \$3,920 broker commission);
- 3) In October of 1978, the City Council authorized the Second Amendment to Agreement with Brown Brothers (A-78096), that authorized eliminating the broker's 10% commission from Brown Brothers' fee, thereby making their fee \$39,200 instead of \$43,120;
- 4) In February of 1979 the second year's fee (1/20/79 to 1/20/80) was increased to \$42,025, based on the Consumer Price Index (CPI) increase of 7.21% on all urban customers for the San Francisco-Oakland area for period December 1977 to December 1978; and
- 5) In a letter dated January 14, 1980 Brown Brothers Adjusters requested a fee increase and some modifications (See Exhibit I) to our current agreement for the last year of the 3 year agreement (1/20/78 to 1/20/81).

ALTERNATIVES

There were three (3) alternatives for the City to consider:

- 1) Accept Brown Brothers requested fee increase with requested changes;
- 2) Request new proposals from independent claims administrators; or
- 3) Negotiate new terms of agreement with Brown Brothers Adjusters.

CONCLUSIONS

Following a review of the alternatives, together with discussions with the City's Insurance Consultant (Exhibit III) it was the Risk Management and Insurance Committee's opinion that since we have been satisfied with Brown Brothers' performance (see Exhibit II) and it would be in the best

March 28, 1980

interest of the City that James Jackson and the undersigned should meet with Brown Brothers to negotiate new terms that would be mutually acceptable and beneficial to both parties.

On February 12, 1980, James Jackson and the undersigned met with Brown Brothers' Sacramento Area Manager and negotiated what we felt was an agreement that was equitable to both sides (see Exhibit IV), in light of fees being charged throughout the industry (i.e. State of California, AAA, State Farm and Civil Service Insurance of \$125/claim plus expenses and Mund, McLaurin and Company of San Francisco's recent experience (See Exhibit II)).

RECOMMENDATION

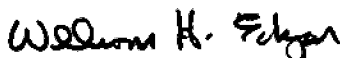
It is the recommendation of the City's Risk Management and Insurance Consultant that based on Brown Brothers past performance and the agreed upon terms for the amended agreement that:

1. The current agreement between the City and Brown Brothers Adjusters be rewritten incorporating the negotiated agreed upon changes;
2. The terms of the agreement become effective April 20, 1980;
3. The term of the agreement be extended 2 years from January 20, 1981 to January 20, 1983;
4. The agreement provide that the fee structure will be changed each January 20, based on the prior years CPI for the San Francisco-Oakland's All Urban Consumer (December to December); and
5. The Budget and Finance Committee direct Staff to forward this report to the City Council for adoption of the attached resolution which will incorporate the above items (1 - 4) into the rewritten agreement between the City and Brown Brothers.

Respectfully submitted,


Frank Mugartegui
Assistant Director of Finance

RECOMMENDATION APPROVED:


William H. Edgar
Assistant City Manager

April 8, 1980

FM:m1
FA:80148
Enclosures

cc: Ora Scheel, Munn, McLaurin & Co.
100 Bush St., S.F. 94104
Risk Management & Insurance Committee



BROWN BROTHERS ADJUSTERS of NORTH INTERIOR
1451 River Park Drive • Suite 251 • (916) 920-4392
Sacramento, CA 95825
Mail Address P.O. Box 255707 • Sacramento, CA 95825
DONALD I. OLSEN, Manager

HOME OFFICE: SAN FRANCISCO, CA 94111

OUR FILE NO. SAC Misc.

January 14, 1980

Mr. Frank Mugartegui
Assistant Director of Finance
915 Eye Street
Sacramento, California 95814

Re: City Contract

Dear Frank:

This letter will supplement our conversation of December 20, 1979 concerning the existing contract between the City of Sacramento and Brown Brothers Adjusters.

First, I wish to thank you for your complement regarding your satisfaction with the manner in which Brown Brothers Adjusters has and is handling the City's claims.

On January 20, 1980 we will be starting the last year of a three year contract which will terminate in 1981.

As I explained to you certain revisions will have to be made in the final contract year and in the future contract years for Brown Brothers Adjusters to handle the City's claims at a fair margin of profit.

Familiar problems, which both public and private business face are the rate of inflation, rising gasoline, salary and associated costs. However, one problem particular to the claims industry is the handling costs of legal files. Public entities have in their own light added to litigation numbers and costs by the outmoded claims denial process, which, as you are aware the City of Sacramento recently corrected.

I have attached for your review a small measure of statistical facts concerning claims numbers and contract costs and respectfully suggest the following changes in the last year of our current contract be presented to the City Council for consideration and I trust approval.

Our current fee is \$42,026.00, adding in the CPI for San Francisco of possibly 12% (\$5,043.12) would raise our last years fee to \$47,069.12. We are handling an average of 632 claims per year, at an average per claim fee of \$66.49 per claim. We have and are operating at a steep yearly loss.

We propose the following changes and or alternatives.

- To administer the first 550 claims per contract year for \$95.00 per claim or \$52,250.00 per year.

(Below Average EXPENSES)

608 Ave. Colma Per Year (Sine Ex II)

$\times 95$

\$57,760

<48,179> Current 300% FR

\$ 9,581 - INCREASE OR

19.8%



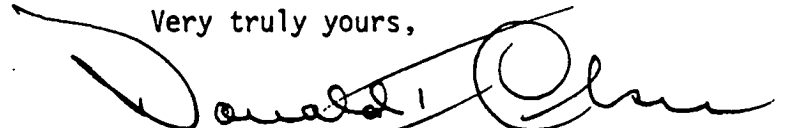
NOTES

2. Claims exceeding 550 in number will be billed at our time and expense of \$21.00 per hour, not to exceed \$95.00 per claim. } NEW ITEM NOT IN PRESENT AGREEMENT
3. Allow Brown Brothers Adjusters to bill all open and/or reopened legal files more than 12 months old at standard time and expense charges of \$21.00 per hour. } NEW ITEM NOT IN PRESENT AGREEMENT
4. It would be agreed all open files would be brought to a current status by the effective date of contract termination and returned to the City and/or it's new claims administrator. We would not be responsible for any claims "tail". } PARA 6, PG 3 & 4 OF THE AGREEMENT REQUIRES ADJUSTERS TO HANDLE TAIL
5. In the event of a catastrophe loss causing multiple claims from a single occurrence Brown Brothers Adjusters shall handle the first 10 claims without any additional compensation other than provided in the contract. note: Prior experience, no claims fell into this category. } PARA 4(a) PG 2 & 3 CALLS FOR 20 INDIVIDUAL CLAIMS

Brown Brothers sincerely wishes to continue to be the City's claims representative, however, the hard fact is we cannot enjoy this privilege and operate at a deficit.

We look forward to your early response to this letter. Thank you.

Very truly yours,



Donald I. Olsen,
Branch Manager

DIO/dk



BROWN BROTHERS ADJUSTERS of NORTH INTERIOR
 1451 River Park Drive • Suite 251 • (916) 920-4392
 Sacramento, CA 95825
 Mail Address P.O. Box 255707 • Sacramento, CA 95825
 DONALD I. OLSEN, Manager

HOME OFFICE: SAN FRANCISCO, CA 94111

OUR FILE NO.

CITY OF SACRAMENTO - CLAIMS

1st Contract - 1 year 1977-78

2nd Contract - 3 years 1978-81

Year 1 - 77-78	Fee \$ 38,500.00 ^①	822 Claims	164 After Anniversary
Year 2 - 78-79	Fee \$ 39,200.00 ^②	634 Claims	118 " " " "
Year 3 - 79-80	Fee \$ 39,850.00 ^③	442 " "	
Year 4 - 80-81	Fee \$ 42,026.00 ^④		

1. Average Claims 1st 3 years 632 per year¹¹
2. Average Claims "tail" 1st 2 years 141 per year
3. Total legal files - open - all years 119

① NET FEE \$35,000 AFTER COMMISSION TO BROS
② CORRECT NET FEE
③ S/B \$42,026
④ PROJECTED TO BE \$48,179 FOR 700 CLAIMS OR \$68.83/claim



CITY OF SACRAMENTO
BROWN BROTHERS ADJUSTERS
AUTOMOBILE AND GENERAL LIABILITY CLAIMS ADMINISTRATION DATA

EXHIBIT II

FEE STRUCTURE

Original quotation, based on 700 claims per year.

	<u>Period</u>	<u>Gross</u>	<u>Less Brokers' Commission</u>	<u>Net Fee</u>	<u>% Fee Increase</u>	<u>Average Fee Per Claim</u>
1st Yr	1/20/77-78	\$ 38,500 ¹	(\$3,500)	\$ 35,000		\$50.00
2nd Yr	1/30/78-79	43,120 ²	(3,920)	39,200	12.0%	56.00
3rd Yr	1/20/79-80	42,026 ³	-0-	42,026	7.2%	67.04
4th Yr	1/20/80-81	48,179 ³	-0-	48,179	14.6%	68.83
TOTALS		<u>\$171,825</u>	<u>(\$7,420)</u>	<u>\$164,405</u>		<u>\$58.72</u>

CLAIMS EXPERIENCE

For the period 1/20/77 through 1/20/79 (36 months), the number of reported claims.⁴

NO. OF CLAIMS FILED

	<u>Period</u>	<u>Mos.</u>	<u>Auto</u>	<u>Gen.</u>	<u>Total</u>	<u>Net Fee</u>	<u>Average Fee Per Claim</u>
1st Yr	1/20/77-78	12	206	511	717	\$ 35,000	\$48.81
2nd Yr	1/20/78-79	12	222	396	618	39,200	63.43
3rd Yr	1/20/79-80	12	200	288	488	42,026	86.12
TOTALS		<u>36</u>	<u>628</u>	<u>1,195</u>	<u>1,823</u>	<u>\$116,226</u>	<u>\$63.76</u>

SUMMARY OF AVERAGE FEE PER CLAIM

Basis	-	$\frac{1,823 \text{ total reported Claims}}{3 \text{ years}}$	=	608 average claims per year
3rd Year	-	$\frac{\$116,226 \text{ 3-yr Adjuster fees}}{1,824 \text{ claims (608 x 3)}}$	=	\$63.76/claim average fee
4th Year Projection	-	$\frac{\$164,405 \text{ 4-yr Adjuster fees}}{2432 \text{ projected claims (608 x 4)}}$	=	\$67.60/claim average fee

AVERAGE COST OF CLOSED CLAIM

<u>Claims Adjuster</u>	<u>Period</u>	<u>No. of Closed Claims</u>	<u>Average Cost/Close Claim</u>
E.S.I.S.	1/20/76-1/19/77	290	\$934
Brown Brothers	1/20/77-1/19/80	1100	820
Close Claim Cost Difference			<u>\$114</u>

Assuming an annual average of 608 claims at a \$114 claim, difference equals a \$60,312 annual savings to the City.

- NOTES:
- ¹Per 1st Amendment to Agreement, 12 fee increase.
 - ²Per 2nd Amendment to Agreement, eliminated Broker's fee and increased fee 7.21% based on CPI.
 - ³Projected 4th year fee based on CPI increase of 14.6%.
 - ⁴Reported claims from January 1980, Brown Bros. Loss Report

MUND, McLAURIN & CO.
OF SAN FRANCISCO

INSURANCE ANALYSTS

RISK MANAGEMENT • ADMINISTRATIVE SERVICES
100 BUSH STREET • SAN FRANCISCO, CA 94104 • 415/981-6522

MEMORANDUM NO. SF80-31

To: City of Sacramento

DATE: January 17, 1980

ATTENTION: Mr. Frank Mugartequi, Assistant Director of Finance

SUBJECT: BROWN BROTHERS ADJUSTERS ADMINISTRATION FEE LIABILITY SELF-INSURED RETENTION

We recently had a big go-around with another client dealing with change in Administrators.

The per claim handling costs submitted by the Administrators were all over the board, broken down between "incident" reports, property damage only, bodily injuries, personal injury, quoted on flat sum for so many losses, with flat charge per claim exceeding the average, etc.

Claims where litigation might ensue were pretty consistently shown on a time and expense basis not to exceed \$180 per claim, lowest \$100 per claim.

One of the Administrators proudly presented his proposal with the statement, "I hope this will be the highest cost you receive. If not, you should be alerted to the fact that our costs have been paired to the bone, and any costs less than what we have shown can only be substantiated by a decrease in service, which will automatically produce higher payments of claims." The interesting thing was that this Administrator on an average was 25% lower than the highest cost and 7% higher than the low bidder.

There does not appear to be any "fat" in the fee collected by Brown Brothers, based on costs from other Administrators.

The increase to \$95.00 from \$67.04 per claim is a long way from \$180, but a little high when applied to all claims regardless of type.

The most important points in our estimation are:

Administrator is in Sacramento
You are satisfied with service, and based on ESIS
performance, claims costs have been reduced.

Of the alternatives outlined, we would recommend that attempt be made to negotiate the fee down from \$95.00, citing that bulk of claims are concentrated in Sacramento area, number of PD which do not require much time, etc. If necessary give up requirement for them to handle runoffs in event of termination, reduce multiple claims from single occurrence from 20 to 10. We can see a charge for reopened claims, but do not understand why a charge for legal files over 12 months old is in order.

You could have real difficulty in keeping the cost at \$47,069.12 but we do feel that the \$95.00 figure could have been quoted knowing that it could be subject to negotiation.

A change over in liability is always difficult--improper handling of one claim would cost you a lot more than imcrease in Administration fee.

MUND, McLAURIN & CO. OF SAN FRANCISCO

By *(Signature)*

OS

CITY OF SACRAMENTO
BROWN BROTHERS ADJUSTERS
REQUEST AGREEMENT CHANGES & NEGOTIATED AGREEMENT

EXHIBIT IV

BROWN BROTHERS ADJUSTER'S
REQUESTED CHANGES PER
LETTER DATED 1/14/80

RESULTS OF NEGOTIATION

ANALYSIS OF
NEGOTIATED TERMS

1. Administer 1st-550 claims per contract year for \$95.00/claims or \$52,250/year minimum;
2. Claims exceeding 550 in number would be billed at time and expense of \$21.00/hr, not to exceed \$95.00/claim;

1. 1st-600 claims per contract year for \$85.00/claim or \$51,000/year minimum;
2. For claims exceeding 600 in number/year -
600-700 claims - \$100.00/claim over 700 time & expense at regular billing rates, not to exceed \$125.00/claim;

Based on average of 608 for the past 3 years

Items #1 & 2 -

- a) Current 3 yr of agreement fee would be \$48,179 or \$68.83/claim
- b) Brown Brothers requested fee of \$95.00/claim or a \$57,760 maximum annual fee
20% increase over a) above
- c) Negotiated fee of \$85.00/claim for 1st 600, \$100.00/claim for 600-700 claim
1st 600 @ \$85.00 = \$51,000
8 @ 100.00 = 800
Annual Fee \$51,800
 $\frac{51,800}{608} = \$85.20/\text{claim}$
23.8% increase over current agreement

3. Allow Brown Brothers to bill all open and/or reopened legal files more than 12 months old at standard time and expense charges of \$21.00/hour;

3. Deleted

4. All open files would be brought to a current status by the effective date of contract termination and returned to the City or its new claims administrator. Brown Brothers would not be responsible for any claims "Tail";

- 4.. City would assume all open claims 30 days following termination of contract, allowing Brown Brothers 30 days to attempt to settle as many cases as possible and to bring all files to a current status with a final status report on each file;

- 4.. City would assume run-off cost on all claims opened after 4/20/80;

5. In the event of a catastrophe, loss causing multiple claims from a single occurrence, Brown Brothers shall handle the first 10 claims without any additional compensation other than provided in the contract.

5. Agree to this provision, since prior experience indicated no claims fell into this category.

5. No additional cost based on past experience.

RESOLUTION NO. 80-220

Adopted by The Sacramento City Council on date of

Resolution authorizing the City Manager to enter into an amend agreement for administration of claims under the City's Self-insured Retention Program (SIR).

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

1. That the City Manager is hereby authorized to enter into an agreement that supersedes prior agreement (#A76182 and A78096) between the City of Sacramento and Brown Brothers Adjusters;
2. That the terms of the new agreement will provide for:
 - a) An expiration date of January 19, 1983;
 - b) Adjusters remuneration for the period April 4, 1980 through January 19, 1981, to be:
 - 1) \$85.00/claim for the 1st 600 claims;
 - 2) \$100.00/claim for claims exceeding 600 in number/year up to 700; and
 - 3) \$125.00/claim or time and expense at regular billing rates, whichever is less, for claims in excess of 700/year;
 - c) The City to assume all open claims, occurring after April 20, 1980, 30 days following termination of agreement, allowing Brown Brothers 30 days to attempt to settle as many claims as possible and to bring its files to a current status with a final status report on each file;
 - d) In the event of a catastrophe loss causing multiple claims from a single occurrence, the adjuster shall handle the first 10 claims without any additional compensation other than provided in the contract;
 - e) The compensation paid to the adjuster for the second and third year of this agreement (Jan. 20, 1981 to Jan. 19, 1982 and Jan. 20, 1982 to Jan. 19, 1983) shall be based upon the United States Department of Labor Consumer Price Index (CPI) for the San Francisco-Oakland area for all Urban Consumers adding the "CPI" increase between December and December of the prior year; and
 - f) All other terms and conditions of the original agreement shall remain in force and effect in the said agreement.
3. That the Department of Finance is authorized and directed to pay for the said services from the Risk Management and Insurance Program Budget 4-21-5030-0000-4258.

APPROVED
BY THE CITY COUNCIL

APR 8 1980

OFFICE OF THE
CITY CLERK