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ublic entities have faced increasingly difficult challenges in trying to maintain the levels of public service their citizens have come to expect. In exploring potential mechanisms for generating revenue, however, many organizations have overlooked an ever-present but often unrealized opportunity in risk management.

Public-entity risk management has historically been viewed by many as a necessary evil, an expense line item. Governments have often viewed their risk management organization as a triad composed of society, the judicial system, and what the insurance industry has forced on them. This perception is further supported by inexplicable insurance premiums, arbitrary claim settlements, and frivolous lawsuits. Government entities have incorrectly concluded that the overall costs of risk management can only be tethered but not controlled or reduced.

Risk management is a complex system of independent, interactive, dynamic factors. Using appropriate methods, jurisdictions can control and manage costs successfully. And at this point, a great opportunity can be realized.

CASE STUDY: PETALUMA

The small city of Petaluma, California (population 55,000), created and implemented a working public entity risk management model that not only reduces overall risk management expenses but also creates a source of sustainable revenue, even in these difficult economic times.

By 2003, Petaluma was experiencing an alarming rise in overall risk management costs. There seemed to be no end in sight. Many within the city concluded that this situation was due to random statistical chance, and everyone hoped the adverse trends would decrease with time. Unfortunately, this proved to be wishful thinking.

Petaluma found itself with negative risk management fund balances. Deciding that there must be a better way, the city council and the city manager’s office hired a private-sector risk management consulting firm to see if a private enterprise risk management model might improve the situation. The city manager gave only one directive: Make the invisible visible.

After an initial risk management study and assessment, the project received full strategic and operational support from the city council, the city manager, and senior management. A city risk management model was begun. To ensure success, this model had to be customized specifically for Petaluma. A “one-size-fits-all” approach does not work in a successful risk management program, so the city adopted a simple
philosophy: The best way to avoid claims and litigation is not to have them. The strategy is concise and direct — avoid, recover, mitigate.

The Petaluma risk management picture at the time looked grim because a number of immediate concerns were discovered (See Exhibit 1).

City officials separated the risk management and workers’ compensation claims handling. The day-to-day workers’ compensation claims processing would remain within the human resources department. Risk management would also offer human resources consulting services to improve performance, and risk management would report directly to the city manager’s office so its priority was visible and enforceable. City officials also decided to contract with a risk management consulting firm to create the new risk management prototype. The team was created with the understanding that it would later be integrated into the city. And the city declared a risk management mission: Identify, manage, control, minimize or eliminate risk, to the extent that citizens, personnel, and property can be reasonably protected from hazards, while insuring that the financial solvency of the city is secure.

**NEW PROGRAMS**

The new risk management strategy included creating, documenting, and measuring new programs. This meant updated risk management contract and insurance risk transfer programs; onsite risk management consulting programs; specialized city risk management projects, assessments, or both; and city-wide risk management training programs. Programs and procedures were enhanced or developed to maximize the city’s success in recovering money that was owed to the city or could be rebated.

Historically, the city had not been successful in recovering money owed by parties that had not been identified or were reluctant to pay. The city’s insurance carriers had denied some of its insurance claims. Reducing claim frequency and severity and introducing risk management best practices gave the city an opportunity to receive future rebates and to decrease its insurance premiums.

Insurance procurement offered another opportunity to reduce overall claim costs. City officials decided to analyze the entire insurance and self-insurance coverage and premiums annually and to seek cost reductions and solutions where appropriate. Individual claims litigation strategies and tactics were also formulated and implemented to reduce overall claims and litigation expenses and to improve public relations.

The city also mandated that risk management personnel needed to have personal contact with both claimants and their attorneys. This practice leads to better explanations and more successful resolutions of often-misunderstood government tort claims. The city also implemented a team-based approach to resolving complex litigated cases. This litigation intervention involves all
shareholders, the plaintiff, the plaintiff’s attorney, the defense attorney, the department head, risk management, and contractors.

PETALUMA TODAY

After six years of documentation, establishment of risk management benchmarks, citywide cooperation, training, implementation of best practices, and just plain hard work, Petaluma realized unexpected results. The benchmarks demonstrated a marked improvement. See Exhibit 2 for the results (not including the amount of savings from successfully negotiated claims and litigated cases, or any savings realized by the risk management consulting services or special project programs), which were confirmed by independent auditors and consultants:

Consistent with the original risk management mission statement, excess risk funds were given back to the city. For example, cash rebates were put back into city funds, and no city department has been charged for any risk services, claims, and insurance for the past year.

CONCLUSIONS

Although most public entities continue to face unprecedented financial challenges, an unrealized opportunity exists. A successful risk management program not only results in cost reduction, it also generates a sustainable source of revenue.

RON BLANQUIE is risk manager for the City of Petaluma, California.