

**BOARD OF
ANIMAL SERVICES
COMMISSIONERS**

VACANT
PRESIDENT

KATHLEEN RIORDAN
VICE PRESIDENT

TARIQ A. KHERO

ARCHIE J. QUINCEY, JR.

IRENE G. PONCE

City of Los Angeles
CALIFORNIA



ANTONIO R. VILLARAIGOSA
MAYOR

DEPARTMENT OF
ANIMAL SERVICES
221 North Figueroa Street
5th Floor
Los Angeles, CA 90012
(888) 452-7381
FAX (213) 482-9511

EDWARD A. BOKS
GENERAL MANAGER

LINDA J. BARTH
ASST. GENERAL MANAGER

KATHLEEN J. DAVIS
ASST. GENERAL MANAGER

Report to the Board of Animal Services Commissioners

Edward A. Boks, General Manager

COMMISSION MEETING DATE: November 17, 2008

PREPARED BY: Anthony Sanchez

REPORT DATE: October 22, 2008

TITLE: Management Analyst II

SUBJECT: Six-Month Agreement of a Pet Health Insurance Sponsorship Agreement

BOARD ACTION RECOMMENDED:

That the Board:

1. Award a six-month Agreement, with five additional six-month renewals, to Pets Best Insurance Company for a Pet Health Insurance Sponsorship;
 2. Direct Staff to transmit the proposed Agreement to the Office of the City Attorney for approval as to form, and authorize the General Manager of the Department of Animal Services to execute the subject Agreement upon receipt of necessary approvals.
-

SUMMARY:

On February 25, 2008, the Board directed Staff to release a Request for Proposals (RFP) for a Pet Health Insurance sponsorship, in which a pet health insurance company would be referred as an insurance option for pet owners adopting or redeeming animals from Department Animal Care Centers, in exchange for sponsoring the Department. Staff released the RFP on March 17, 2008, and on April 22, 2008, received proposals from Veterinary Pet Insurance, a California company established in 1980, and Pets Best Insurance, an Idaho company established in 2005.

Upon receiving the proposals, Staff reviewed all required documents and secured the respective approvals from the City's Office of Contract Compliance. Both proposals included all required documents and met the RFP's minimum qualification of being licensed in California. VPI underwrites their own policies in California, and North Pointe Insurance Company underwrites policies for Pets Best; the California Department of Insurance website verifies that both are licensed in this state.

AN EQUAL OPPORTUNITY EMPLOYER

Visit our website at www.LAAnimalServices.com

An evaluation panel was formed and met on July 29, 2008 to interview the proposers and complete their evaluation of the proposals. To rank the proposers, the panel used a scoring system as instructed in the RFP. This scoring system is the method established for this RFP to rank one proposal against another. Scores are not intended to be, nor should they be interpreted as, equivalent to a letter grade or a percentage.

Although each proposer offers a wealth of qualifications, overall an evaluation panel recommended that Pets Best be awarded the agreement, based on the value of the proposal to the Department, and how well the proposed sponsorship promoted the Department's chief goals of increasing adoptions and reducing intake through relinquishments. As indicated in the Evaluation of Proposals section below, Pets Best could potentially pay a sponsorship of \$4,000 to approximately \$8,000 per year, and substantially higher if including added revenues as a result of donations to the Department. However, as with perhaps all insurance companies, neither Pets Best nor VPI is able to offer coverage for conditions or injuries determined to be a pre-existing condition (incurred before the policy-effective date). Whether a condition or injury is pre-existing must be determined on a case-by-case basis. While there is certain potential value for adopters (getting insurance quotes at the point of adoption, availability of insurance for their new pet, etc), there are the potential issues for some adopters who find their newly-adopted pet's condition may not be covered by their insurance because it may be a condition or injury incurred while the pet was in the Care Center. The Department must then determine if the costs of administering the agreement, producing insurance quotes, and working to resolve any issues that may arise with adopters, will be offset by the amount of sponsorship the Department may receive. An agreement with 6-month terms would allow the Department to monitor the value of the agreement and compare it to the sponsorship amount we receive.

Evaluation of Proposals

Each proposer provided the panel a substantial amount of detail about their qualifications and proposed services. To address the large amount of information provided, each main category was divided into 10 subcategories, each addressing a unique aspect of the two proposals. The scoring reflected a total of 50 points allowed in each category. In each subcategory, scoring ranged from 0 points to 5 points (no pass = 0, acceptable = 3, excellent = 5 points). The maximum total points possible is 100. The information provided in each subcategory below reflects the panel's evaluation and feedback based on information provided by the proposers.

Background, Qualifications, and Services Offered: Proposer's background and experience; services provided to proposer's customers; quality and proven record of performance.

How experienced is the company as a whole? What makes them experienced?

Pets Best: The extent of the experience of the individual founders compensates for the relatively short time since the company's inception. The company was founded in 2005, but as a relatively new company, they have attracted experienced staff. For example, the co-founder's experience in the insurance industry dates back to 1972; other executive staff includes a 9-year IT management and internet marketing expert, and a former AVMA executive vice president. Dr. Jack Stephens, DVM, who is the company's founder, is an expert in the field, having established the pet health insurance industry in the United States, and has created and operated a previous successful pet health insurance company.

According to the panel, his years of running a successful venture in an industry that's seen its share of failures speaks greatly to his capabilities. Panel's score: 4

Veterinary Pet Insurance: At over 26 years in the industry, VPI is the longest-running provider of pet health insurance in the United States. Its principals have had successful careers, mainly in industries other than pet health insurance. In general, the principals come from industries other than pet health insurance. For example, VPI's president is a former executive at Nationwide Insurance; other top staff have executive experience in finance, accounting, marketing, and veterinary medicine. The panel stated that it is clear that VPI have the right people in place to operate successfully. Panel's score: 4

How much has the company accomplished as a whole? How would their accomplishments be an advantage to the City?

PB: In 2007, after two years in existence, Pets Best insured 17,000 pets with \$7 million in premiums. They are forecasting insuring 40,000 to 60,000 pets in 2008. Although a relatively new company, Pets Best's founder has a track record of growing this type of company, and has demonstrated the capability to accomplish their goals. The panel felt that Pets Best has accomplished much in a relatively short time, and such growth can benefit the Department by attracting more adopters and keeping pets healthy and thus out of our shelters. Panel's score: 4

VPI: In their 26 year history, they have grown to a company with over 460,000 policies (as of 2007). They underwrite their own policies, and their long-term stability offers the City the benefit of financial stability and a proven track record. As the first company in the United States in this industry, VPI offers long-term stability and many years of experience. Panel's score: 4

How experienced and knowledgeable is (are) the principal(s)?

PB: Pets Best's principals bring decades of experience in the pet health insurance industry. Their president founded the competing proposer 26 years ago, while the co-founder has worked in the insurance industry for 35 years. Their chief veterinarian, Dr. Bruce Little, practiced in Illinois and joined the AVMA in 1985. Because Pets Best's founder, Dr. Stephens, founded the pet health insurance industry, the panel believed that this merited a high score in this category. Panel's score: 5

VPI: The panel felt that although VPI's principals have a wealth of experience in a variety of industries, including other areas of the insurance industry, in general they had not been in the pet health insurance industry before 2000. Panel's score: 3

How much have/has the principal(s) accomplished?

PB: Their president created the nation's first pet health insurance company, operating it for 24 years, and went on to establish a second pet health insurance company; he has founded both proposing companies. Panel's score: 5

VPI: The principals have had successful careers in industries other than pet health insurance, working in diverse fields such as those listed above (including other areas of insurance). The panel felt that if the prior careers of VPI's principals would have been more

specific to the pet health insurance industry, they would have ranked VPI higher in this category. Panel's score: 3

Are the benefits easy to understand?

PB: Pets Best's benefits are based on a predetermined deductible and a percentage of the remaining amount. For example, each plan provides for a deductible, ranging from \$75 to \$300. After the deductible, Pets Best reimburses 80%. In general, panel members agreed that this simplified structure is easy for the consumer to understand. Panel's score: 5

VPI: VPI's sample policy and benefits schedule for their Superior Plan details services, coverage, deductibles, exclusions, and a comprehensive list of benefits, in an 8-page fold-out document. While some in the panel felt that VPI's detailed schedule is easy to understand and provides helpful information, some panel members found VPI's detailed schedule complicated and not as simple as Pets Best's structure. Panel's score: 3

Do they cover spay/neuter surgery?

PB: Pets Best covers spay/neuter surgeries under a Wellness plan which can be added to any of their plans. Panel's score: 5

VPI: VPI covers spay/neuter surgeries under their Pet WellCare Protection Premier rider, which offers the choice of coverage for a spay/neuter surgery or dental cleaning. The panel saw the choice of either one or the other procedure as a negative. Panel's score: 4

Are limits and exclusions reasonable? Which has fewer limits or exclusions?

Both proposers exclude congenital and hereditary conditions, elective procedures (the equivalent of plastic surgery in humans), diseases that are vaccine-preventable, dental coverage, and pre-existing conditions (conditions or injuries which pre-date the policy's effective date). Establishing what is or is not pre-existing would be necessary on a case-by-case basis, as all claims are subject to review by the proposer's veterinary staff. In general, a pet's medical records help both companies identify whether conditions predate the policy's effective date. If the onset of a condition or injury is shown to be during the time a pet was in a shelter (based on medical records), that condition or injury may not be covered. It is possible that some conditions for adopted pets whose medical records show those conditions to exist while in a Department care center, may not be covered by either company should those conditions persist after the adoption. Pets Best offers benefits for certain behavior conditions such as separation anxiety, aggression, litter box problem in cats, etc., but does not cover training classes or obedience school (although behavior training is offered separately, as discussed below). VPI does not cover behavioral problems per se, although they do cover testing to look for underlying medical conditions, and treatment of those medical conditions if found to be causing behavior problems.

PB: In general, the panel felt Pets Best's limits and exclusions are specific, transparent, and easy to understand as provided. Also, Pets Best does not have any age restrictions, which was viewed favorable by the panel. Panel's score: 5

VPI: VPI's enrollment age limit for dogs and cats is 6 weeks to 9 years (dogs and cats 10 years and over can not be enrolled), although once enrolled, VPI will not cancel a policy due

to the pet's age. This age restriction was seen less favorably by the panel, since Pets Best does not have such a restriction. Panel's score: 3

Is claims filing efficient and easy?

PB: Claims may be filed with Pets Best online, by fax, or U.S. mail. Panel's score: 5

VPI: VPI prefers claims filing by fax or US mail. Electronic filing is not yet one of their preferred methods. Panel's score: 4

Other aspects of their company that are likely to directly enhance the City's goals?

PB: Pets Best would provide animal behavior training to employees, volunteers, and adopters free of charge (intended to reduce the number of adopted dogs and cats returned to the shelters because of behavioral issues); would allow for instant insurance quotes at the point of adoption through Chameleon; and specifically targets their Shelter Best insurance program to increase adoptions. Pets Best provides online training and will also provide staff to visit care centers, which may directly enhance the adoption process. Also, Pets Best's ability to provide quotes at the point of adoption may enhance adoptions and make it easier for adopters to enroll. Panel's score: 4

VPI: VPI has a strong focus on events, which may benefit the Department only if adoptions result from these events; their public relations capabilities may benefit the Department through advertising campaigns, etc. Panel's score: 3

Anything else about their background and experience that makes their proposal attractive?

PB: In general, the panel stated that the focus of Pets Best is geared toward adoption of care center animals and the enhancement of pet adoptions, such as providing resources to help ensure that adopted animals are not returned to care centers due to behavioral problems. Panel's score: 5

VPI: The panel stated that VPI has strong marketing power through their public relations capabilities, but a "real dollar" value was proposed as a perceived value rather than actual allocation. Panel's score: 3

In this category, the panel assigned Pets Best 45 points, and assigned VPI 36 points.

Proposed Sponsorship and Services to the Department: Quality and variety of proposed deliverables; proposed "per-adoption" fee and/or flat fee amount and total level of sponsorship; company representation; coverage levels, timing, financial value to adopters, redeemers, and the Department.

How is their printed material? Is it of good quality? How is their variety?

PB: The panel stated that Pets Best's sample printed materials are professional, well-made, detailed, and varied. Panel's score: 4

VPI: VPI's sample printed materials are likewise professional, colorful, of quality materials, and well-made. Panel's score: 4

Do they propose to provide other materials to adopters such as electronic materials (CDs, DVDs, etc)?

PB: Pets Best provides free emailed newsletters and free online oncology consultations to adopters. Panel's score: 3

VPI: The VPI Pet HealthZone, an online feature, provides subscription-free content for adopters, such as articles authored by on-staff writers, focused on pet care and safety. The panel found more variety and content in VPI, scoring them more favorably in this category. Panel's score: 4

How well does their enrollment process integrate with our adoption process?

PB: Pets Best uses Chameleon software, the same animal tracking system used by the Department, which will allow all adopters to receive a price quote at the time of adoption. Pets Best can integrate their system with ours, so that care center staff can ask an adopter if they'd like a free insurance quote, and if the adopter so wishes, care center staff can easily and quickly create a printed quote for the adopter. The panel saw this as an efficient way to provide quotes to adopters. Panel's score: 5

VPI: VPI's enrollment process is separate from the adoption process: an adopter may log on to VPI's website to receive a quote or call their toll-free number. Although simple and straightforward, the panel felt Pets Best's ability to provide a printed quote at the time of adoption merited a higher score. Panel's score: 3

What is the value of their sponsorship payments?

Pets Best proposes an advertising fee of \$15 per enrollment, plus the potential for additional donations made by their customers. VPI proposes paying the Department \$10,000 each year, to be adjusted based on re-evaluating certain performance metrics. To compare the proposed sponsorship amounts, an estimate of the percent of adopters who would buy health insurance for their pet is helpful. According to VPI and Pets Best, less than one percent of pets in the United States are insured. VPI's proposed sponsorship is partly based on their estimate of 23,000 pets adopted from the Department in 2007. They forecast 200-250 new policies in their first year if they would be awarded an agreement. If their projected number of new policies is correlated to the number of adoptions, about 1% of adopters would buy pet health insurance. There were 12,398 dog and cat adoptions and New Hope placements in the first six months of 2008; assuming a continued increase in adoptions, we can (conservatively) expect about 25,000 adoptions of dogs and cats in 2008. If 1% of adopters buy health insurance, we can estimate 250 new policies at least in the first year of a sponsorship contract. But both Pets Best and VPI, as well as other organizations who watch pet industry trends, indicate that the number of pet owners buying insurance is increasing. We could then assume that the number of policies purchased is more than 1%, perhaps 2% of adopters. If this is the case, we can forecast 500 new policies at least in the first year of a contract:

Based on this estimate, if Pets Best pays the Department \$15 per enrollment, they would pay the Department \$7,500 per year. Additionally, Pets Best offers a method for their customers to make additional donations to the Department; they offer a 10% discount to the

adopter if a policy is purchased within 10 days of an adoption. The adopter has the option to donate this discount to the Department, which may yield additional revenues. Potentially, insurance policies may also be purchased by visitors to our website; Pets Best would track website visits and provide monthly reports to the Department documenting the number of website visits and resulting policy purchases.

While it appears at first glance that VPI's sponsorship may be higher, Pets Best's sponsorship allows for additional revenues from donations. VPI proposes to adjust theirs every six months, and Pets Best combines their advertising fee with donations. Although it is not possible to estimate an exact dollar figure equivalent, both offer an attractive sponsorship scale and were both seen favorably by the panel.

Panel's score for Pets Best: 4. Panel's score for VPI: 4

How does the company demonstrate their understanding of LAAS' goals?

PB: The panel stated that the focus of Pets Best is geared toward adoption of shelter animals, which is directly in line with the City's goals. Their partnership with the Animal Behavior Network, an online resource, would help reduce the number of owner turn-ins and reduce shelter populations. Panel's score: 5

VPI: The panel stated that VPI's focus appears to be geared toward writing policies, as they are responsible to their shareholders. Panel's score: 3

Are they able to attend all or most of our major adoption events? What can they commit to?

PB: Pets Best has committed to attending our major events; past events such as the Paw-Fect Match or the Best Friends Pet Adoption are examples of such major events. Representatives from Pets Best are able to attend events nationwide. Panel's score: 3

VPI: VPI has also committed to attending our major events. They proposed to have a minimum of 1 to 2 staff members attend our events; licensed agents will also be provided. Panel's score: 3

What can they bring to our adoption events?

PB: Pets Best can bring their public awareness campaign and marketing materials to our adoption events. Panel's score: 3

VPI: VPI's public relations expertise, customized brochures and signage, giveaways and drawings, can be helpful at our adoption events. VPI representatives can also educate Department staff about VPI's services. The panel saw the variety and depth of VPI's services in this category more favorably than Pets Best. Panel's score: 4

Are there other features that give a financial advantage to adopters and redeemers? Any discounts or special rates?

PB: Pets Best offers a 10% discount for policies purchased within 10 days of an adoption from the Department. Also, if a pet owner enrolls through our website link, whether or not the pet was adopted from us, the pet owner is eligible for the discount. Panel's score: 5

VPI: VPI offers a 5% discount to the customer for 2 to 3 pets, and 10% for 4 or more pets. A 5% group discount is available. The panel believed that Pets Best's discounts merited a higher score. Panel's score: 2

Are there other features that give a financial advantage to the City?

PB: Enrollers are given the option of donating their discount to the City. Panel's score: 4

VPI: The panel did not find additional features that give a financial advantage to the City. Panel's score: 2

Other services or features offered to us that are likely to directly enhance the City's goals?

PB: Pets Best offers a public awareness campaign on the importance of adopting pets from shelters, though their Shelter Best program and their Racing to Save Pets campaign. Panel's score: 4

VPI: The panel did not see services or features other than those already addressed, but acknowledged VPI's various qualifications and services. Panel's score: 2

In this category, the panel assigned Pets Best 39 points, and assigned VPI 31 points, ranking Pets Best higher in this category.

FISCAL IMPACT:

Funds received from sponsorship payments will be deposited into the General Fund and will help to offset the cost of administering the agreement; additional payments from the contractor such as those resulting from donated discounts (Pets Best would offer enrollers a ten percent discount, and enrollers would have the option to donate their savings to the Department) may be deposited to the Animal Welfare Trust Fund, Fund 859.

Approved:

Edward A. Boks, General Manager

BOARD ACTION:

_____ Passed

Disapproved _____

_____ Passed with noted modifications

Continued _____

_____ Tabled

New Date _____