



ABAG PLAN CORPORATION

**Finance Committee
Regular Meeting
&
Risk Management Committee Meeting
Special Meeting**

**April 21, 2010
9:30 a.m**

**101 Eighth St.
Oakland, CA
Auditorium
&
Teleconference Locations as Noticed**

- 1. Call to Order**
- 2. Public Comments**
- 3. Approval of Finance Committee Minutes, March 18, 2009 ***
- 4. Costs of The Risk Management Information System also known as iVOS ****
This item will be considered jointly by the Finance Committee and the Risk Management Committee. The staff report reviewed by the Risk Management Committee is included with this agenda. Staff will distribute a supplemental staff report before the meeting on April 21, 2010.
- 5. Plan Investment Reports ****
Staff will present information on the performance of PLAN investments for FY2010 and as of the most recent date information is available for FY2011.
- 6. Proposed PLAN Administrative Budget for FY2010-11 ***
Staff will review the attached staff report detailing the proposed PLAN Administrative Budget for the coming fiscal year.

* Staff report attached

** Additional staff report to be distributed before the meeting



**ABAG PLAN CORPORATION
Finance Committee Regular Meeting
Summary Minutes**

**Wednesday, March 18, 2009
101 Eighth Street
Oakland, CA 94607
Conference Room B**

Presiding

Jim Steele

Jurisdiction

So. San Francisco

Committee Members Present

Emma Karlen
Jesus Nava
Jesse Takahashi
Jim O'Leary

Milpitas
Burlingame
Campbell / By Teleconference
San Bruno

Staff Present – ABAG PLAN Corporation

Marcus Beverly, ABAG Plan Risk Manager / by Teleconference
Herbert Pike, ABAG Finance Director
Joseph Chan, Retiring ABAG Finance Director
Gertruda Luermann, ABAG Risk Management Analyst
Carol Taylor, ABAG Plan Secretary

1. Call to Order:

Meeting called to order at 10:00 a.m. A quorum was present.

2. Public Comments:

None

3. Approval of Minutes for March 20, 2008

Meeting minutes of March 20, 2008, approved as presented.
/M/Nava/S/Steele/C/unanimously approved

4. Audited Financial Statements and Memorandum on Internal Control

Herbert Pike, ABAG's Finance Director, presented the audited Basic Financial Statements and Memorandum on Internal Control for the fiscal year ended June 30, 2008. He reported despite losses in FY 07/08, the confidence level for the pool was still above 90% as of June 2008.

After presentation the committee and staff discussed several aspects of the statements, including how the allocation of adjustment expenses was made and whether or not a sweep account is available and a better alternative than the current bank account terms.

After further review and discussion, the committee approved the audited financial statements and memorandum on internal control, with request ABAG staff investigate sweep account availability and report back to committee with results.

/M/Nava/S/Steele/C/unanimously approved

5. Investment Performance Report:

Herbert Pike, ABAG Finance Director, presented:

a) Investment performance report as of December 31, 2008.

The total book value of investments is almost \$49 million, with overall yield of 4.27%, and average maturity of 2.1 years. We continue to maintain a relatively short-term position with the overall portfolio due to the inverse yield curve of the last two years, but opportunities to purchase securities meeting our requirements still exist.

Most of the remaining discussion centered on the downgrade of \$2 million in HSBC bonds held by the PLAN. The downgrade is due to the general uncertainty over financial institutions, though recent news about HSBC has been more positive.

After further discussion and review the committee agreed two members and staff would schedule a teleconference with PFM Asset Management to discuss the risk and options for responding to it, with a follow-up meeting with committee members. Action tabled until above completed.

b) Investment Strategies for FY 09-10.

Staff presented the investment strategies, with most of the discussion centered on how to improve the safety of the PLAN's investments. Members noted there are no restrictions on concentration in market sectors, such as financial institutions, and the PLAN recently sold investments in Citi Group, without a loss, due to concerns over safety. There was discussion of limiting bonds and investments to those that are FDIC insured or otherwise government backed.

After discussion and review committee approved the investment strategies for FY 09-10 as presented but with a restriction on corporate notes (year) unless FDIC or government insured. /M/O'Leary/S/Steele/C/unanimously approved

c) Recommended Investment Policy Changes. After discussion and review the committee agreed no changes were needed at this time. No formal action was taken.

6. Other

Joe Chan, ABAG Finance Director, announced his retirement, and committee members thanked him for his years of service to the PLAN.

7. Adjournment

Meeting was adjourned at 11:00 a.m.

Respectfully Submitted,



Marcus Beverly
Risk Manager and Secretary

Date: April 12, 2010

To: Risk Management Committee

From: Darrell Dearborn, Interim Risk Manager
Brian Kirking, IT Director
Herb Pike, Finance Director

Subject: iVOS Costs

Recommendation: None. This report is for information only.

Summary:

Total cost for purchase and implementation of the iVOS risk management information is estimated to total \$745,313. Of this amount, \$347,073 has been or will be paid to AON, the system vendor. The balance, a total of \$398,240, is projected to be incurred by June 30th of this year in the form of 3720 implementation hours required of ABAG staff in the Finance and IT departments.

Analysis:

The PLAN Risk Management Committee and the PLAN Board approved the purchase of a new risk management information system in May and June of 2008, respectively, at a cost of \$300,000. Evaluation of proposals was completed in November, 2008 and selection of the system proposed by Valley Oak was approved by the Committee on November 19, 2008 at an initial purchase price of \$372,005. No additional costs were estimated for implementation of the system.

Compared to popular commercial software packages like Excel, PhotoShop, and QuickBooks, iVOS is a specialized program for a specific industry. The program has evolved over time by adding features requested by individual customers. No two customers use the software the same way, and every implementation requires adapting the software to fit the customer's specific business needs.

While there was an appreciation of this fact going into the project, as noted at the Committee meeting in October of last year the level of this effort actually required turned out to be much greater than expected. Virtually every feature of the iVOS program required adaptation in order to work the way we expected it to. Notable examples are importing and saving of email messages, interface to Oracle Financials, deductible billing, and management data reports.

AON's business analyst performed some of the adaptation. Other tasks were beyond her abilities or control and required AON programmers who produced work too slowly. In either case, AON staff hours came at substantial cost. Also in both cases, AON staff required input from ABAG in order to understand our requirements. As time went on, we discovered that it was quicker, simpler, more cost effective, and in some cases absolutely necessary, for ABAG staff to perform the adaptation. Fortunately ABAG has excellent technical staff. It's uncertain whether the iVOS implementation could have been accomplished at all without these resources. Although they were initially unfamiliar with iVOS, they did have substantial experience with RiskMaster and Oracle, and they were able to add substantial value to the project.

Most of the system is now installed and payments for delivery of the system are essentially finished. The most significant applications in the system not yet functional are deductible billing, which allows the automated billing of PLAN claims expenditures to members, including the correct allowance for member's SIR; the grants program involving members' loss prevention expenses; and clients' access to claim information. . We believe it will be more cost-effective to complete these applications with in-house programmers rather than wait for AON to do it. Estimated cost for this work should not exceed \$25,000 and is included in the ABAG implementation costs cited above.

The total cost of the system has been funded in two ways. First, the purchase price of the system from AON, including its staff time, is being treated as an asset and funded from PLAN surplus liability funds. As the system ages, we will depreciate the asset over seven (7) years as an expense in the annual Administrative budget. A portion of the ABAG staff time required to install the system (\$87,000) has also been funded this way and will be included in future depreciation expenses.

The second way this cost has been treated is as a current operating expense in the Administrative budget. This reflects the time of Finance and IT Department staff who have done the work described above to adapt the system to PLAN's needs as we've processed payments to claimants, vendors and members and retrieved historical claim information in different report formats. In one way or another, each of these operations has required fixes that weren't foreseen when iVOS was purchased.

Conclusion

The iVOS system has the potential to be a significant improvement over RiskMaster, but it has a number of features that have not allowed PLAN information to be used in the seamless way we expected. Its installation has presented problems requiring a substantial commitment of ABAG staff time and AON technical support to make the system perform the operations we require. We are hopeful the system can be made to run smoothly with all of its applications by the end of this fiscal year.

Date: April 16, 2010
To: ABAG PLAN Finance Committee
From: Darrell Dearborn, Interim Risk Manager
Subject: **Proposed 2010-11 PLAN Administrative Budget**

Recommendation

It is recommended that the Committee review and approve the proposed 2010-11 PLAN Administrative Budget and recommend it to the Executive Committee. The Executive Committee will review the Budget at its meeting of May 13, 2010.

Summary

The Administrative Budget for 2010-11 includes all PLAN expenses not budgeted in the Liability Fund or the Property Fund. The budgets for those Funds, including premiums for 2010-11 which are now being finalized by the PLAN actuary, will be presented to the Actuary Committee at its meeting on April 29, 2010.

The proposed Administrative Budget for 2010-11 totals \$3,051,680 is \$308,631 or 11.3% above the adopted budget of \$2,743,049 for 2009-10.

Attached is the proposed Administrative Budget together with actual expenditures for 2008-09 and projected expenditures for 2009-10.

Analysis

No increase in full-time permanent staff is proposed for 2010-11. An increase in the number of liability claims per month which began in December, 2010 caused us to add a half-time examiner, budgeted as claims consultant expenses, to maintain our high service level for members. During next fiscal year it may be necessary to propose the addition of a new full-time examiner if the greater claim load continues.

Total personnel costs proposed would increase by \$137,581 over the 2009-10 Budget. The largest share of this increase, \$84,266, is for IT staff to apply software versions and fixes, interface with AON technical staff, maintain security settings, prepare custom reports and perform other work required to support the new iVOS system. We will spend more than \$105,000 on these activities this year, notwithstanding that these costs were not budgeted.

The remainder of the increase in personnel costs reflects a net increase of \$30,000 in indirect overhead costs for PLAN, from \$716,299 to \$746,009. This includes a reduction

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of \$20,000 (shown at the bottom of the Budget as an Indirect Overhead adjustment) from the amount that would otherwise be charged to PLAN next year to reflect the previous commitment of the Executive Director to reduce the charge to PLAN by this amount in 2010-11. Indirect overhead is budgeted at the same rate (42.95%) used in the 2009-10 budget. This may change if the total authorized staff of ABAG changes next year.

Total Consultant Services and Other Direct Charges would increase by \$171,050, from \$359,000 to \$530,050, reflecting the inclusion of the contract for ReasonedRisk for twelve months at \$144,000, and the half-time claims manager added this year. These expenses were not budgeted in 2009-10.

ABAG PLAN CORPORATION

Proposed 2010-11 Budget

ADMINISTRATIVE EXPENSES (including Loss Prevention)

	Auth. FTE	Actual FY 2009	Auth. FTE	Budget FY 2010	Actual 9 months FY 2010	Projected Actual FY 2010	Auth. FTE	Budget FY 2011
Personnel								
Risk Manager	1	220,705	1	220,232	0	0	1	222,128
Claims Supervisor	1	166,103	1	182,039	130,689	182,039	1	183,159
Claims Examiner	6	703,538	5	723,419	474,054	660,000	5	733,212
Risk Analyst	1	141,522	1	145,174	104,440	145,174	1	143,603
Secretary/Claims Asst.	2	161,768	2	180,604	127,186	180,604	2	173,622
TOTAL IN PLAN DEPT.	11	1,393,637	10	1,451,468	836,369	1,167,817	10	1,455,724
Finance Director	0.15	49,032	0.07	15,734	25,205	33,606	0.07	15,912
Asst. Finance Director			0.07	11,358	9,438	12,584	0.07	11,630
Accounting Supervisor	0.01	4,747	0.02	3,586	2,750	3,667	0.03	5,431
Accounting Specialist	0.55	65,803	0.53	61,410	65,970	87,960	0.59	68,303
Accounting Clerk	---	2,692	---	0	1,384	1,845	0.03	2,780
TOTAL ACCOUNTING DEPT.	0.71	122,273	0.69	92,088	104,747	139,663	0.79	104,056
Director of IT	---	5,112	---	0	27,635	31,847	0.03	6,706
Sr. Systems Administrator	---	922	---	0	0	0	0.00	0
Data Base Administrator							0.27	37,536
Webmaster	0.02	3,765	0.06	7,274	1,893	2,524	0.02	2,989
Applications Programmer	---	51,320	0.07	8,899	80,762	105,683	0.45	53,208
TOTAL IT DEPT.	0.02	61,119	0.13	16,173	110,291	140,054	0.77	100,439
Legal Counsel	0.29	73,350	0.29	79,000	48,638	60,138	0.29	80,485
Legal Asst./Legal Secretary	0.06	3,941	0.06	5,830	0	3,000	0.05	4,381
TOTAL LEGAL DEPT.	0.35	77,291	0.35	84,830	48,638	63,138	0.34	84,866
Sr. Communications Officer	0.02	1,896	0.02	3,540	2,275	3,540	0.02	2,898
Communications Officer	0.06	2,786	0.06	8,293	2,804	3,738	0.02	2,930
Communications Assistant	---	3,409	---	0	1,563	2,084	0.03	3,405
TOTAL COMMUNICATIONS	0.08	8,091	0.08	11,833	6,642	9,363	0.07	9,233
Executive Director	0.05	8,508	0.02	7,127	14,395	20,000	0.04	14,798
Supply Clerk	0.02	6,967	---	0	5,814	7,500	0.09	7,520
Assistant Supply Clerk	0.02	1,597	0.05	4,231	223	500	0.02	1,349
Secretary/other	1.33	0	---	0	0	0	---	0
TOTAL OTHER ADMIN.	1.42	17,072	0.07	11,358	20,432	28,000	0.15	23,667
TOTAL SALARY & FRINGE	13.58	1,679,484	11.32	1,667,750	1,127,119	1,548,034	12.12	1,777,985
INDIRECT OVERHEAD	43.00%	722,178	42.95%	716,299	484,097	664,881	42.95%	763,645
TOTAL PERSONNEL COSTS		2,401,661		2,384,049	1,611,216	2,212,915		2,541,630
CONSULTANT SERVICES (excludes consultants providing loss prevention services)								
Technical Consultant Fees		99,250		60,000	80,364	88,000		42,500
Legal Consultants		38,288		50,000	18,275	23,000		55,000
Claims Consultants		81,886		70,000	60,680	80,000		100,000
Risk Management Consultants		8,000		10,000	61,887	105,500		0
Actuarial Consultants		21,370		20,000	2,100	22,000		22,700
Audit Fees Claims Admin.		0		10,000	0	0		20,000
Audit Fees Financial		21,516		18,000	2,300	22,250		23,000
Other Consultants		0		0	89,350	125,350		144,000
TOTAL CONSULTANTS		270,309		238,000	314,956	466,100		407,200
OTHER DIRECT CHARGES								
Travel		7,365		7,000	4,053	6,000		6,000
Printing		5,769		9,000	2,402	4,000		4,000
Conferences & Seminars		25,969		25,000	10,935	12,000		15,000
Equipment Leases & Maintenance		0		0	350	350		0
Office Supplies		4,100		8,000	1,928	2,700		3,000
Subscriptions & Memberships		5,322		7,000	3,937	5,000		5,000
Depreciation		8,742		15,000	3,251	3,251		62,000
Automobile Expense		0		0	196	250		250
Postage		0		0	3,912	4,500		4,500
Telephone		0		0	263	300		300
Insurance and Bonding		15,473		20,000	15,487	15,487		16,300
Staff Training & Development		1,295		5,000	844	1,000		1,500
Miscellaneous		17,587		25,000	2,857	5,000		5,000
TOTAL OTHER DIRECT		91,622		121,000	50,414	59,838		122,850
TOTAL EXPENSES		2,763,593		2,743,049	1,976,586	2,738,853		3,071,680
Less: Ind Overhead Adjustment								-20,000
GRAND TOTAL								3,051,680