



ABAG PLAN CORPORATION

Finance Committee Regular Meeting Risk Management Committee Special Meeting

Summary Minutes

**Wednesday, April 21, 2010
101 Eighth Street
Oakland, CA 94607
Auditorium**

Presiding

Jessee Takahashi, Acting Chair, Finance Committee

Jurisdiction

Campbell

Finance Committee Members Present

Emma Karlen
Jesus Nava

Milpitas
Burlingame

Risk Management Committee Members Present

Laura Allen
LeeAnn McPhillips
Julie Carter
LaRae Brown

Colma / by teleconference
Gilroy / by teleconference
Dublin
Millbrae

Staff Present

Darrell Dearborn, Interim ABAG PLAN Risk Manager
Herb Pike, ABAG PLAN Chief Financial Officer
Brian Kirking, ABAG IT Director
Gertruda Luermann, ABAG PLAN Risk Management Analyst
Carol Taylor, ABAG PLAN Secretary

Others Present

Kevin Bryant
Ronald Anderson
Mark Joseph

Woodside
Suisun City / by teleconference
Suisun City / by teleconference

1. Call To Order

The meeting was called to order at 9:45 a.m. A quorum was present for each committee.

2. Public Comments

None.

3. Approval of Finance Committee Minutes for March 18, 2009

Meeting minutes of the Finance Committee meeting of March 18, 2009 were approved as presented. **Motion/Karlen, Second/Takahashi, unanimously approved.**

4. Costs of The Risk Management information System also known as iVOS

Mr. Dearborn summarized the information in two staff reports before the Committees regarding the history of the iVOS project, costs associated with its purchase and implementation over two fiscal years, and its projected costs to June 30, 2010. Mr. Dearborn said that the original cost estimates for the system given to the Risk Management Committee and the Board in 2008 did not include costs for ABAG staff in the IT and Finance Departments who performed the in-house work required to convert data from the old RiskMaster system and implement the iVOS system. This work totaled 941 hours and \$106,000 in 2008-09, and is estimated to total 2778 hours and \$290,000 in 2009-10.

Mr. Dearborn said that the unbudgeted implementation costs incurred in 2008-09 were funded from salary savings within the total ABAG PLAN budget, and it is estimated that the unbudgeted costs in 2009-10 can be funded from the same source without an increase in the previously approved budget. He acknowledged that these unbudgeted costs should have been made known to the Committee much earlier. However, staff managing the project before July 1, 2009 did not express any concern about implementation costs that were charged to the project during 2008-09. Staff responsible for the project after that date did not know that in-house implementation costs had not been reported to, and approved by, the Committee and Board.

Mr. Takahashi and Ms. Brown asked if ABAG PLAN has recourse against AON for these costs under our contract. Mr. Kirking said probably not, the cost of the system stated in the AON proposal (\$372,005) was expressed in the contract as work to be done on an hourly basis without a cap on costs to actually be incurred.

In response to questions, staff explained that iVOS is not a stand alone system but requires connection to and integration with Oracle data base and financial systems within ABAG. Mr. Takahashi asked if AON will support the system in light of the customization ABAG has done to make the system fit PLAN requirements. Mr. Kirking said that it would. Most users of iVOS adapt it to meet their particular needs. There will be a \$22,000 annual maintenance fee payable to AON.

Mr. Nava asked how depreciation of the system would be treated. Mr. Pike explained that it would be depreciated as a capital asset over its expected life through an annual depreciation expense in the Administrative budget starting in 2010-11. Based on a seven year expected life, the amount will be \$62,000. This number of years may be increased to ten with a lower annual expense.

Further discussion occurred regarding costs that should be approved by the Board. Ms. McPhillips asked if ABAG PLAN should cover all of the unbudgeted implementation costs that were not first approved by the Board. Ms Allen suggested that a recommendation should be made to the Board that it retroactively approve the expenditures made in 2008-09, and that it approve the total expenditures expected to be made by June 30, 2010. Mr. Kirking said that the estimated total of \$290,000 in 2009-11 is a valid target and that it should allow installation to be completed.

Mr. Dearborn said that the staff would prepare a report to the Risk Management Committee in August, after the books close for 2009-10, detailing the status of the project in terms costs, work completed and work remaining to be done, if any.

The discussion of unbudgeted costs included suggestions that ABAG PLAN should develop policies for budget control on projects of this kind that would ensure cost overruns are brought to the Board or a Committee so decisions to provide additional funding or reduce the scope of the project to stay within budget can be in a timely manner. The Committees agreed those policies should be pursued.

Motion/Takahashi, Second/Karlen, unanimously approved, that staff prepare a report to the Board for its meeting of June 16, 2010 explaining the history and costs of iVOS, whether additional implementation costs will be incurred in 2010-11, and asking the Board to approve the 2009-10 implementation costs currently estimated at \$290,000. The report should be available to the Board at least one week before its meeting.

Laura Allen, LeeAnn McPhillips and Julie Carter of the Risk Management Committee left the meeting at 11 a.m., and the remaining items were considered by only the Finance Committee.

5. ABAG PLAN Investment Reports

Mr. Pike presented reports for quarters ending June 30, 2009, September 30, 2009 and December 31, 2009. No remarkable performance issues were noted. Investment yields continued to be low reflecting historically low interest rates on portfolio investments.

Two changes in the investment policy were approved: 1) To increase from 25% to 30% the share of the portfolio that can be invested in callable bonds, and 2) The policy prohibiting investments in corporate bonds was lifted to take advantage of highly rated corporate bonds with higher yields than other approved securities, if available.

6. Proposed ABAG PLAN Administrative Budget for FY2010-11

Mr. Dearborn presented the proposed budget for the Administrative Fund for 2010-11. The proposed budget totals \$3,051,680 or 11.3% above the current budget of \$2,743,049. Principle reasons for this increase are the first year of iVOS depreciation (\$62,000), the Marcus Beverly contract (\$144,000), additional IT staff costs associated with the new iVOS system (\$84,000) and the addition of contract claim examiner costs for FY2011 (\$75,000) to handle an increase in the number of claims.

A question was raised regarding Mr. Beverly's contract and what services were being provided under it. Mr. Dearborn said Mr. Beverly had provided assistance in developing iVOS reports and data to the actuary for the 2010-11 premium study, and help in correcting claim cause codes. He has also provided risk management services to several member cities. Mr. Dearborn explained that at its February meeting the Executive Committee authorized the chair, Ms. Allen, to renegotiate the contract if Mr. Beverly's hours worked were less than 65 for the month of March, 2010.

Questions were raised regarding the indirect overhead rate, including the components of costs making up the rate. Mr. Dearborn said that at its February meeting the Executive Committee approved the issuance of an RFP in FY2011 to have an outside firm review the methodology used to establish the indirect overhead rate and the direct costs attributed to ABAG PLAN, and to report its findings. The review will also compare the ABAG PLAN indirect overhead methodology to those used in comparable insurance pools.

Ms. Brown asked about how the ABAG budget looked for 2010-11. Mr. Pike briefly described the limited compensation changes budgeted for ABAG employees, which include a salary increase equal to the change in the CPI, capped at 3%, as called for in the second year of a current two-year labor agreement.

Mr. Nava asked for a breakout of all of the compensation assumptions built into the 2010-11 ABAG PLAN budget. Mr. Takahashi asked for a breakout of the components of the indirect overhead rate. Mr. Joseph asked if there were performance measures PLAN used that would be helpful in the budget process. Mr. Dearborn said measures were available and can be included in the budget.

Motion/ Nava, Second / Karlen, unanimously approved, to approve the proposed 2010-11 Administrative Budget, subject to receiving the additional indirect overhead rate information requested, and subject to a decision on Mr. Beverly's contract.

7. Other Business

Mr. Dearborn discussed the Audited Financial Report for FY2008-09 which was emailed to the Committee on April 20, 2009. No action was recommended; however, if the Committee would like to consider it, a special meeting should be scheduled. Mr. Takahashi asked that members call Mr. Dearborn's office with dates and times during the first week of May when a special meeting of the Committee might be held via conference call to consider the Report and take action before the Board meeting of June 16, 2010.

8. Adjournment

There being no further business to come before the Committee, the meeting was adjourned at 12:45 p.m.

