SPECIAL MEETING OF THE BOARD OF ADMINISTRATION
RETIREMENT BOARD
WATER AND POWER EMPLOYEES' RETIREMENT PLAN

MINUTES – APRIL 27, 2005

Present:

Javier Romero	President
Lilly Calvache	Vice-President
Ronald F. Deaton	General Manager
Ron Vazquez	Chief Financial Officer
Michael Moore	Retiree Member
Gerard McCallum II	Commissioner
Eugene Canzano	Board Member

Others Present:

Sangeeta Bhatia	Acting Retirement Plan Manager
Irene Colon	Recording Secretary
Michael Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 10:05 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Ms. Bhatia indicated there was a quorum of the Board.

PUBLIC COMMENTS

President Romero inquired if there were any public comments.

Mr. John Hill, an employee of DWP (Accounting Division) approached the podium.

President Romero recognized Mr. Hill.

Mr. Hill stated the purpose of his comments is an attempt at attaining conformity with the Los Angeles City Employee's Retirement System (LACERS). He indicated he had previously addressed a couple of the Retirement Board members in private concerning this matter. He also stated he made an inquiry to the IBEW Local 18 to schedule a meeting with Mr. Russ Butow (Senior Assistant Business Manager) to discuss some of the favorable aspects of their Retirement Plan that he feels would be of benefit to the Department of Water and Power (DWP) employees. Mr. Hill expressed he was hoping for the support of the Retirement Board members so that DWP could have parity with some of the provisions of LACERS. He stated he looked forward to discussing this issue with the union and the Retirement Board members in the future.

Mr. Deaton and Commissioner McCallum arrived at the Board meeting.

1. **Discussion and Possible Action on Presentations of Retirement Office Systems**

   a) **Presentation by Levi, Ray & Shoup, Inc. on Pension Gold software**

Mr. Thomas Van Leer, Sales Support Manger; Mr. Mark Prevost, Manager of Sales and Business Development; and Ms. Karen Frederick, Account Representative, from Levi, Ray & Shoup, Inc. approached the table. President Romero recognized the representatives of Levi, Ray & Shoup, Inc (LRS).

The LRS representatives provided the Board with a presentation of their Pension Gold administration software and retirement services.

The questions and answers regarding LRS' presentation is detailed below.

President Romero noted that currently there is an option for employees to make an additional contribution of up to 10% of their salary at a guaranteed rate of return. He inquired if the Pension Gold software had the ability to separate and track the additional contributions. Mr. Van Leer responded in the affirmative, stating this was defined as a voluntary contribution, which could be tracked individually and paid interest. He stated those payments could also be paid out separately from the defined benefits.

President Romero inquired about the integration of existing systems within the Department. Mr. Van Leer responded this was done through a transmittal process using a predefined record layout. He indicated Pension Gold's project team would work with DWP's Human Resources (HR) staff to extract the data from the HR payroll system.

President Romero noted the Retirement Office is starting a disaster recovery process involving the scanning of beneficiary forms and any accompanying legal documents. He inquired if staff would have to purchase a special scanner from Pension Gold to integrate with the firm's program. Mr. Van Leer responded LRS does have a model that could be purchased separately called the Electronic Document Management (EDM) module. He indicated staff would not have to purchase a scanner or imaging software from Pension Gold, but the module needs to integrate with the Retirement Office's imaging software to retrieve and return those images. Mr. Van Leer explained how Pension Gold's module gives the client an integrated capability of viewing documents associated with a member they may be working with. He stated it appears the Retirement Office has one image document containing all of the forms. Ms. Bhatia stated the Retirement Office project is currently part of the archive system under the Disaster Recovery project undertaken by the Department. Mr. Van Leer inquired what imaging software the Retirement Office uses. Ms. Bhatia responded it was FileNet. Mr. Van Leer indicated Pension Gold's software integrates nicely with FileNet. He stated if the client produces an outgoing correspondence from Pension Gold it would automatically be scanned and indexed into the individual's file so staff would not have to print the correspondence and scan it back in. He added it could also be printed with a bar code on it, alerting staff a document has been returned and needs processing.

Mr. Deaton inquired if Pension Gold was currently working with LACERS, and if so,

when did they begin. Mr. Van Leer responded Pension Gold began working with LACERS in 1998. He stated LACERS was one of their first customers on this version of Pension Gold. Mr. Deaton inquired how long it took to set LACERS up. Mr. Van Leer responded two years, however LRS was still developing the product at that time. He indicated DWP's implementation would take approximately 9 to 12 months. He stated this would include the conversion process, staff training, and the completion of parallel. Mr. Moore inquired if this was based upon a survey already conducted on the status of information the firm would be utilizing. Mr. Van Leer responded the timeframe was based on LRS's experience with California retirement funds and throughout the country. He stated Pension Gold has not had the opportunity to review DWP's specific planned documents. Mr. Moore inquired if the firm knew what form DWP's data is in or how easy or difficult conversion would be. Mr. Van Leer responded, historically and given LRS's experiences over the years, 9 to 12 months would be the normal timeframe.

Mr. Deaton inquired who was Pension Gold's most recent client in California. Mr. Van Leer responded LRS just completed parallel with the County of San Bernardino at the beginning of this year. However, they have approximately 10 clients in California, which includes the Cities of Fresno, San Jose, San Diego, and Los Angeles. Mr. Deaton inquired how long it took to set up San Diego. Mr. Van Leer indicated it took three years because they were also one of Pension Gold's first clients. Ms. Lilly Esperza (Senior Systems Analyst) of LACERS commented San Diego was converting historical data from 14 years back causing a delay in their implementation. She stated San Diego had a lot of data element issues so the three years is not a reflection on Pension Gold. Mr. Deaton inquired which client was most recently completed. Mr. Van Leer responded the County of Alameda was the most recent, reaching completion in 2002, and taking 18 months. He reported San Bernardino County has over 20,000 members (active, retirees, and retiree survivors) and took 15 months to complete. He stated San Bernardino's implementation was very sophisticated in that it was integrated into FileNet, initiated workflow capabilities with FileNet, and required complete hardware installation network configuration and rollout of the entire hardware network infrastructure. He added LRS was the prime contractor on this project, but they did install Great Plains software through a subcontractor.

Mr. Vazquez inquired about the range of costs it takes to purchase the product, including the imaging, implementation, license fees, and maintenance. Mr. Van Leer responded it would be hard to predict, but anywhere from $200,000 to $10 million. Mr. Vazquez inquired what the cost was to set LACERS up. Mr. Van Leer responded approximately $1 million. Ms. Esparza clarified LACERS' cost was less than $1 million.

Mr. Moore inquired how much of it is a function of the number of records versus the form of the data and the other types of functions. Mr. Van Leer responded it was more a function of the level of customization needed. He stated he had not reviewed the plan documents for DWP's Retirement Office, but he suspects it is not unique based on what he has read on the website.

President Romero inquired since LACERS already has the Pension Gold product and DWP is with the same city, would DWP be able to piggyback on LACERS' contract, or would they have to purchase a separate license. Mr. Van Leer responded a separate license would have to be purchased because the license agreement specifically states

the software is strictly for LACERS use. He stated it was LRS's recommendation that DWP have a separate license because each client has their own unique customizations.

Mr. Canzano noted that LRS indicated there were conversions and upgrades taking place with the current version of Pension Gold. He then inquired when was the next anticipated version of Pension Gold. Mr. Van Leer responded the firm just released 2.7. Mr. Vazquez inquired how would LACERS move from their current version to 2.7. Mr. Van Leer explained when a new version is developed the client's customizations are reapplied to the new base product, is retested, and then fed to the client to put on their development site to be tested. Mr. Deaton inquired if LACERS had upgraded their system yet. Ms. Esperza responded LACERS has upgraded from 2.4 through 2.6 and is scheduled for 2.7. Mr. Deaton inquired about the cost for each of the upgrades. Ms. Esperza responded that LACERS has a maintenance agreement with LRS, wherein they are entitled to the upgrades. However, they are responsible for the cost of changes to the customization enhancements. She stated sometimes other funds express interest in a particular customization and LRS will include it as part of the base. Mr. Deaton inquired about the cost of a maintenance contract. Ms. Esperza indicated LACERS' maintenance contract cost approximately $260,000. President Romero requested elaboration on what the maintenance contract consisted of. Mr. Van Leer indicated their maintenance agreement has been restructured since LACERS purchased it. He explained the agreement covers any emergency defects in the software, maintenance and enhancement of the software, and up to 120 hours a year of support calls. He added the 120 hours is also used to reapply the client's customizations to the new release. Mr. Van Leer stated LRS tries to find ways to keep the client's annual cost down and allow them to direct how the services are utilized. He indicated the City of Los Angeles is one of LRS's highest paying clients because they are under the old structure and are entitled to unlimited supported calls and their customizations are reapplied to the new release free of charge. President Romero inquired if LRS's technical support was 24/7. Mr. Van Leer responded the hours for technical support are 5 days a week, between the hours of 8:00 a.m. and 6:00 p.m. Central standard time. President Romero commented that being on the West coast it is conceivable staff might encounter problems after the hours of technical support. He inquired if there was an emergency number to reach a representative in this instance. Mr. Van Leer responded staff could reach a representative by pager, and if there will be a special operation being run, LRS could be on standby if given a 24-hour notice.

Mr. Moore inquired, as a percentage of conversion cost, how would one quantify the typical percentage that would apply to customization. Mr. Van Leer responded their most customized client is the City of San Diego and they have approximately 20% customization. He explained this means the client changed 20% of the base functionality. Mr. Moore inquired how much customization did LACERS do. Mr. Van Leer responded he would have to find out.

Mr. Van Leer concluded his presentation.

Mr. Vazquez inquired of LACERS if there was anything they needed to track for their members that could not be tracked using the Pension Gold system. Ms. Esparza responded that LACERS did build a payment tracking system for when payments are deposited into the account of a deceased retiree and the funds must be recovered from

another person who was joint on the account and withdrew the money. She explained this other person would not be in the Pension Gold database so a separate tracking system was developed to recover the money Mr. Vazquez inquired if this was isolated. Mr. Tom Moutes (Chief Management Analyst) from LACERS commented there were also a few other side systems.

Mr. Vazquez inquired if LRS had many clients that need to maintain data outside of the Pension Gold system. Mr. Van Leer indicated he did not know how many there were, but each client has their unique characteristics and needs they choose to administer separately from Pension Gold.

President Romero thanked the representatives of Levi, Ray & Shoup, Inc for their presentation. The representatives returned to the audience.

President Romero called for a brief recess at 11:05 a.m.

[Recess]

The Board meeting reconvened at 11:15 a.m.

b) Presentation by LADWP Information Technology Business Unit on enhancements designed for the existing Retirement Automated Payroll system (RAP)

Ms. Ellen Zemault, Programmer Analyst, and Frank Christine, Information Systems Manager of DWP's Information Technology Services (ITS) Division approached the Board table. President Romero recognized the representatives from ITS.

The representatives from ITS provided the Board with a presentation of the RAP II custom payroll system.

The questions and answers regarding ITS' presentation is detailed below.

Mr. Vazquez noted that previously it took 5 months to close the 1099R process, and inquired why it would take 2 ½ months with the new proposed system. He further inquired why the information is not already captured in the system and able to produce it at the end of the year. Ms. Zemault responded the 2 ½ months was an exaggerated timeframe and did not refer to the system, but rather the lead-time for staff in the Retirement office to review all of the reports.

President Romero noted that ITS indicated it takes one person to maintain the system. He inquired how many people did ITS plan on training for support. Ms. Zemault responded there would be two employees familiar with the system, but the software allows anyone to go in and make changes. She added it only takes one person to maintain the system.

President Romero inquired, putting cost aside, how is ITS' product superior to Pension Gold's product. Ms. Zemault responded ITS' custom payroll system was superior in the fact there will not be any side systems needing development, and because it is web

based it is more reliable and easier to maintain. She also pointed out that ITS developed the system with the Retirement Office and is well aware of their needs. Ms. Zemault expressed she did not want to compare the two products because they are both good products.

Mr. Moore inquired what the comparative costs would be of fully implementing Phase 2 of ITS' product from development to completion and for ongoing maintenance. Ms. Zemault responded, relative to implementation, a staff of 4 to 5 people is needed to wrap it up in approximately one year. She stated when developing web base applications not all of the staff is needed at one time during the entire implementation development cycle. She added, with regards to maintenance cost, only one staff member is necessary as opposed to a maintenance contract. Mr. Christine commented there would not be license fees or annual maintenance and immediate modifications would be available. Ms. Zemault reported the Cost of Living Adjustment (COLA) and actuarial processing are also in the office automation processing so there would not be the intervention of IT. She indicated the Retirement Office employee responsible for this would be able to go into that system and put in the appropriate COLA percentages or request the actuarial processing.

Mr. Moore inquired what staff's opinion was of the two approaches of ITS and Pension Gold. Ms. Bhatia responded, with regards to Pension Gold, staff visited LACERS and saw the Pension Gold system at work. She stated in working with ITS, staff has provided information in terms of programming logic. Ms. Bhatia indicated ITS' system is by no means implemented, has not been tested, and the design is being processed. However, the Pension Gold product has been implemented and is currently being used, but there would be a big difference in the cost between the two. She stated she was unsure if the dates provided would actually be met because there are currently a number of pending items in the Retirement Office that still has to be addressed by ITS. For example, the benefits for half time employees have been implemented, but still need to be implemented on the membership side. Ms. Bhatia indicated there were plenty of fires concerning the different systems in the Retirement Office, which have to be dealt with constantly. She expressed her concern that everything has to be tested and nothing has been seen except the design of the screens. Ms. Zemault clarified the beginning implementation dates Ms. Bhatia referred to is for parallel testing, and there will also be data conversion verification performed by the Retirement Office. Ms. Zemault explained there are two separate teams in ITS servicing the Retirement Office and she does not service the Retirement Office on the issues Ms. Bhatia addressed. She stated her team was on the development side of the system.

Mr. Deaton inquired if the screens the Board was shown were a preliminary design. Ms. Zemault responded that some of screens were past the preliminary design and the coding process had begun. Mr. Deaton inquired what software was being used. Ms. Zemault responded they were using Cold Fusion, Java, and Dotnet.

Mr. Vazquez inquired, with regards to the implementation schedule, what is ITS' current staffing. Ms. Zemault responded the staff consisted of herself, two other analyst, a part time systems analysts and they are looking to add two more. Mr. Vazquez inquired if two full time staff members were added would they only be saving two months in the implementation schedule. Ms. Zemault responded two more employees would help

bring a little more on the design side and a lot more on the membership side.

Mr. Vazquez inquired about the difference between Retirement and Membership. Ms. Zemault responded that membership is active employees information only, and Retirement is actually putting out the payroll.

Mr. Vazquez inquired when the original RAP system was received from City Hall. Ms. Zemault responded that in 1982, ITS Retirement Office staff and a consultant for the Retirement Plan (Coopers & Lybrand) reviewed the RAP system that was already implemented at LACERS and the Fire and Police Pensions Department. She stated a decision was made to install the Rap system at DWP. Ms. Zemault indicated it took 18 months for 3 ITS employees and the consultant to modify and implement the systems for the DWP Retirement Plan. Mr. Harrington commented the current system is the RAP system that came up from the City years ago and the main change that has been done is that it has an online front end.

Mr. Moore inquired when LACERS decided to go into a new direction. Ms. Esparza responded LACERS has been on line with Pension Gold since January of 2000. President Romero inquired what made LACERS go with Pension Gold rather than develop their own software. Ms. Esparza responded RAP was maintained by their IT Department and it was very cumbersome to make changes to it and took too long to get the changes made. Consequently, management at that time, decided to look outside for a client service solution and bring all the IT support in-house. She stated their cost to IT was more than $1 million a year. Ms. Esparza further stated, with regards to customer service, if a retiree's check was lost it would take approximately three weeks to replace the checks and today a check can be replaced the next day.

Mr. Moore inquired, given LACERS problems with RAP, is ITS concerned those same issues will remain in the new system. Mr. Christine responded there is a different set of people responding to those needs and it is old technology. He pointed out the presentation the Board just saw is new technology customized for the Retirement Office and the Health Plans Office. Mr. Christine stated, as far as cost and whether to have an inside system or outside contractor, if a modification is needed, staff could do it themselves or IT could do it overnight or the next day at no cost. He added IT also has a FTE (full time equivalent) whose only function is to maintain the system. Mr. Christine reported that the system has automated staff's manual work, is intuitive, user friendly, and self-documenting. Therefore if a new employee were hired they would not have to be trained extensively.

Commissioner McCallum inquired, if IT has considered integrating FIlenet into their RAP II system. Ms. Zemault responded in the affirmative. Commissioner McCallum inquired, in terms of hierarchy, would the system be able to interface with other departments. Ms. Zemault responded ITS has already built a gateway with HMRS. She stated IT has gone a long way in developing the RAP 2 and lot of what the Board is seeing was actually at the coding process point.

Mr. Deaton inquired if the system produces the checks. Ms. Zemault responded in the affirmative. She explained IT used the same process as the Controller and the Payroll Office controls the check number and direct deposit advice numbers.

Mr. Deaton inquired, from the Retirement Office system's standpoint in terms of involvement, would there be a fundamental difference in Pension Gold's and ITS' system. Ms. Zemault stated she did not think there was any more involvement, but there is more automation on ITS' side. Mr. Deaton inquired what would not be automated on either system. Ms. Bhatia responded ITS' demo (of Rap 2) reflects the first phase of the project, which is an enhancement to the current payroll system (RAP). Mr. Deaton inquired if RAP II was an enhancement or a replacement. Ms. Zemault responded it is a total replacement. Ms. Bhatia stated currently in the Retirement Office there is a lot of work that is done manually, such as: There are separate disjointed systems, the membership system from which staff has to walk the files over to the Retirement Section to make sure they have all the necessary information for a member to retire. She indicated those issues will not be addressed in the first phase presented by ITS. Mr. Deaton inquired if Pension Gold would address those issues. Ms. Bhatia responded in the affirmative. Mr. Deaton requested a report detailing what issues the Retirement Office is currently facing and how RAP 2 and Pension Gold will handle them. He also requested the report include what each system will not be giving the Retirement Office. Mr. Deaton expressed it was his understanding that RAP 2 cannot do everything Pension Gold does. Ms. Bhatia stated that this particular phase of RAP would not do everything that Pension Gold does. Ms. Zemault explained that it would eventually be phased in. Mr. Deaton stated if the Board is to compare costs and schedules they need to be able to compare apples to apples not half an apple to a whole apple. Mr. Christine explained, in terms of terminology, there would be one Retirement Pension system. He explained RAP 2 is just one phase of it, but the actives and retirees is one system. Ms. Zemault clarified what Mr. Christine is saying is that in the end, everything that is included in RAP 2 will be the same thing that is in Pension Gold. She clarified what Mr. Deaton is requesting is to have it reported by function, timeframe, and cost. Commissioner McCallum requested the staffing requirements for implementation and ongoing maintenance be included in the report. Mr. Vazquez inquired if there was currently an automated membership system. Ms. Zemault responded there was one put in at the same time the original RAP was installed. However, there is a lot of incorrect information coming out of it, but she was not involved on the membership side. Commissioner McCallum requested the report also include if the current hardware systems networks are capable of handling both systems and what the cost would be for implementing Pension Gold versus RAP 2. Mr. Moore inquired who is going to gather the numbers from Pension Gold in order for the Board to make the comparisons.

Mr. Deaton left the Board meeting at 12:30 p.m.

Mr. Van Leer (Pension Gold) approached the podium.

President Romero recognized Mr. Van Leer.

Mr. Van Leer stated Pension Gold would be happy to provide the Board with the numbers. However, the firm would need a better understanding of the Retirement Office's requirements and Plan information.

President Romero inquired, having just viewed ITS' presentation, how is Pension Gold's product superior. Mr. Van Leer stated he could not really say whose product was

superior or inferior. However, he suggested the Board take into consideration they are looking at a ground up development process versus a product that is complete. For example, when Pension Gold first started the LACERS project they estimated it at 10,000 man-hours, but it actually took 50,000 man-hours, and the "EGGTRA" changes that allows the purchase of service and roll in of money from tax deferred accounts to purchase additional services. He expressed there is an inherent advantage in dealing with an organization who stays abreast of these types of things and is proactive in integrating the issues into the product. Mr. Van Leer indicated, with regards to the 1099Rs, on January 1 staff would be able to print them out and produce a corrected version for change of address if necessary.

President Romero suggested the Board keep in mind there is a cost to the Department associated with the man-hours and additional staffing needed to conduct testing. He then requested a timeframe from Pension Gold as to when they would have a more approximate estimate of what the cost would be. Mr. Van Leer inquired if the Board wanted a proposal or just a better feel for the costs.

Mr. Vazquez commented if the Board decides to purchase an outside system he would like to see what else is out there before making the decision of commissioning Pension Gold. He requested Pension Gold submit a rough number based on a preliminary view of things rather than have them take the time of doing an in depth analysis. Mr. Vazquez stated the Board might decide to issue a Request For Proposal (RFP) if they decide to outsource the system versus keeping it in house.

Commissioner McCallum inquired if there were specifications written for ITS to start developing a system. Ms. Zemault responded in the affirmative, adding when she took over the project and started joint application design with the Retirement Office she realized there were a lot more requirements that were needed and additional requirements were developed. President Romero pointed out the problem is that the Retirement Board did not give direction for anyone to do any preliminary work. He explained that prior to moving funds around, this was just something the Board was looking at. Mr. Moore stated the Board is at a point now where they need to make a decision of either keeping it in-house, or putting out an RFP. Mr. Vazquez stated he was not sure what the requirement are for going out with an RFP, but he was impressed with Pension Gold's presentation and the comfort level LACERS has with their system. He stated if the Board is at the point of doing one or the other, then he would welcome a more approximate cost estimate from Pension Gold.

Attorney Wilkinson informed the Board an RFP would definitely have to be issued since it is not evident Pension Gold is the only vendor that could develop the necessary system. Mr. Moore inquired if the Board was precluded from obtaining the information they are requesting from Pension Gold. Attorney Wilkinson responded it was okay to get information from Pension Gold in order for the Board to decide whether to stay in-house or go with an outside vendor. He advised, at that point the Board decides to go with an outside vendor, an RFP would have to be issued. He added going any further than that would be perceived as the Board favoring one vendor.

Mr. Mark Prevost of Pension Gold approached the podium.

President Romero recognized Mr. Prevost.

Mr. Prevost informed the Board if Pension Gold were provided more information they could provide a more narrowly ranged price quote. He stated Pension Gold would also be happy to work with Ms. Bhatia and staff in performing a gap analysis of the two different products. Mr. Prevost returned to the audience.

Ms. Zemault inquired what the timeframe was for submitting a cost estimate to the Board. President Romero requested ITS and Pension Gold submit their estimates in 30 days.

President Romero inquired of Attorney Wilkinson, with regards to the RFP process, if the City has a contract and DWP Retirement piggybacks on their contract, would the RFP process be necessary. Attorney Wilkinson responded DWP Retirement would have to issue their own RFP. He explained it might be possible to piggyback if the Retirement's system was identical to LACERS, if LACERS had cut a deal six months ago, and if the Plans were the same. President Romero inquired how an RFI, as opposed to an RFP, applies in this situation. Attorney Wilkinson responded he would have to look up the differentiation on that.

The Board Meeting was adjourned at 12:42 p.m.

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JAVIER ROMERO   SANGEETA BHATIA
President   Secretary

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IRENE COLON
Recording Secretary