

**REGULAR MEETING OF THE BOARD OF ADMINISTRATION
RETIREMENT BOARD
WATER AND POWER EMPLOYEES' RETIREMENT PLAN
MINUTES – MAY 15, 2002**

Present:

Javier Romero	President
Dan Mirisola	Vice-President
David Wiggs	
Ron Vazquez	
Lilly Calvache	

Absent:

Mary Leslie
(One Vacancy)

Others Present:

Duamel Vellon	Retirement Plan Manager
Sangeeta Bhatia	Assistant Plan Manager
Mike Wilkinson	Deputy City Attorney
Donna Weisz- Jones	Assistant City Attorney
Rob Harkins	The Boston Company
Silvia Tesseneer	Recording Secretary

President Romero called the meeting to order at 10:02 AM, after the Pledge of Allegiance

[Pledge of Allegiance]

Mr. Vellon noted 5 Board members were present, representing Board quorum. He reported there was one request for public comment.

PUBLIC COMMENTS

President Romero recognized Mr. Milton Doucette Jr.

Mr. Doucette stated the method used to calculate the retirement contribution and the highest average monthly salary was unfair. He argued both calculations are based on the DDR held by the employee on the first day of the pay period, and it doesn't necessarily reflect the whole pay period. He further indicated it penalizes the person temporarily promoted to a higher DDR on the first day, but it penalizes the employee that receives a higher DDR on another day of the pay period. President Romero stated this will be taken into consideration and added to an agenda for a future Board meeting. Mr. Vellon indicated Mr. Doucette's explanation is contained in the Retirement Plan Document.

Mr. Vellon reported items 1 and 2 were submitted for consent approval as follows, after minor corrections of the minutes of April 17, 2002, as suggested by Mr. Vazquez:

1. **Approval of Minutes for the April 17, 2002 Board Meeting**
2. **Termination from Monthly Rolls as of April 2002:
Retirement Resolution for May 2002
Survivorship Resolution for May 2002**

Mr. Mirisola moved approval of the consent items 1 and 2. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Vazquez, Wiggs, Calvache

Nays: None

Mr. Vellon introduced Agenda items 3 to 13 to be received and filed as follows:

RECEIVED AND FILED (Items of interest to the Board on which no action is taken)

3. **Investment Board Minutes of May 1, 2002.**
4. **Report of Payment Authorizations as of April 2002.**
5. **Short Term Investments as of April 26, 2002.**
6. **Stock Portfolio Listing as of April 26, 2002**
7. **Report on Long Term Investments (Bonds) as of April 30, 2002.**
8. **Security Transactions for 4 weeks ending April 26, 2002.**
9. **Distribution of Securities by Type and Class as of March 31, 2002.**
10. **Statement of Investments owned as of March 31, 2002.**
11. **Equity Investments as of March 31, 2002.**
12. **Notice of Deaths as of April 2002.**
13. **New Procedure for Payment of Death Benefits for Minor Children.**

Mr. Vellon explained item 13 represents a new procedure for payment of death benefits to minor children. He indicated Attorney Wilkinson advised paragraph 2.3 of the draft procedure should be removed, and with this correction, item 13 is submitted to be received and filed. Ms. Calvache then moved items 4 to 13 be received and filed with the corrections noted. Seconded by Mr. Mirisola and carried unanimously after the following vote:

AYES: Romero, Mirisola, Wiggs, Vazquez, Calvache.

NAYS: None

14. **TCW Asset Management Company investment counsel recommendations for the Board to act upon as to the purchase and sale of financial securities in accordance with the Board's Investment Policy and in voting proxies.**

Mr. Vellon indicated there were no recommendations from TCW Asset Management

Company.

15. **The Boston Company Asset Management, LLC investment counsel recommendations for the Board to act upon as to the purchase and sale of financial securities in accordance with the Board's Investment Policy and in voting proxies.**

Mr. Vellon indicated there were no recommendations from the Boston Company.

16. **HighMark Capital Asset Management, LLC investment counsel recommendations for the Board to act upon as to the purchase and sale of financial securities in accordance with the Board's Investment Policy and in voting proxies.**

Mr. Vellon indicated there were no recommendations from HighMark.

17. **Consideration of Board rule defining the last day to apply for unreduced early retirement benefits at age 50 with 30 years (50/30) under Plan Section IV E(4) (b) [rule expires September 30, 2002].**

Mr. Vellon reported this item was submitted to define the last day to apply for the 50/30 rule with full retirement benefits. He indicated the Plan requires an employee to apply for retirement 30 days before the expected date of retirement and this resolution will allow employees to qualify under the 50/30 rule for retirement on October 1, 2002 if they apply by September 1, 2002. He explained the clarification is needed because the wording of Plan section IV E(4)(b) is not clear and members have been calling about this in the event the 50/30 rule (without reduction) is not extended through the current labor negotiations. Mr. Vazquez moved approval of Resolution 02-69. Seconded by Mr. Wiggs and carried unanimously after the following vote:

AYES: Mirisola, Vazquez, Romero, Calvache, Wiggs

NAYS: None

18. **Consideration of possible Board response, using the Board's monthly Newsletter, to e-mail dated April 9, 2002 sent to Department of Water and Power (DWP) retirees.**

Mr. Vellon reported a response from the Retirement Board to the retirees was discussed at the last Board meeting April 17, 2002, when it was the recommendation of the City Attorney to include the item in this month's Board meeting. Mr. Wiggs expressed it was unnecessary to send a response to all the retirees. After a brief discussion, Ms. Calvache moved the proposed response be sent to the retirees through the Plan's newsletter. Seconded by Mr. Mirisola and carried by majority after the following vote:

AYES: Mirisola, Romero, Calvache

NAYS: Wiggs

ABSTAIN: Vazquez

Atty. Donna Jones advised an abstention in this situation counted as and “aye” vote.

19. Consideration of clarification of Resolution 02-62 relative to Ms. Maria Madrid as “eligible spouse” of the deceased retiree Dannie Madrid to provide for compliance with the “option full” Plan language.

Mr. Vellon explained this was a clarification of a resolution adopted by the Board at a prior Board meeting. He indicated Ms. Maria Madrid had been recognized as “eligible spouse” of the deceased retiree Dannie Madrid, and, upon calculation of her benefits staff found she was 5 years younger than her spouse, therefore she will not receive the full 50% retirement benefits due to Plan language limitations. Ms. Calvache moved to adopt the proposed resolution for item 19. Seconded by Mr. Mirisola and carried unanimously after the following vote:

AYES: Mirisola, Vazquez, Romero, Calvache, Wiggs

NAYS: None

20. Consideration of authorization for the Plan Manager to engage a consultant to conduct a Personnel Study of the Department of Water and Power Retirement Plan positions.

Mr. Vellon reported he met with Mr. Hokinson relative to the Personnel Study for the Retirement Office. He added Mr. Hokinson recommended the Plan Manager proceed with the Personnel Study, provided the controls described in the resolution are followed. Mr. Wiggs inquired what the study was for and Mr. Vellon indicated the study was to ensure the positions in the Retirement office are properly classified. Mr. Vazquez moved adoption of Resolution 02-71. Seconded by Ms. Calvache and carried unanimously after the following vote:

AYES: Mirisola, Vazquez, Romero, Calvache, Wiggs

NAYS: None

21. Consideration of adoption of guidelines for the election of Active Members representatives to the DWP Board of Administration.

Mr. Vellon recommended adoption of the guidelines for the election of the Active Members representatives to the DWP Retirement Board. He noted the changes suggested at prior meetings were highlighted in the draft copy included in the packet. He indicated after board adoption, the guidelines will be submitted to the City Clerk’s office for review before being submitted to the DWP Board of Commissioners for formal adoption. Mr. Wiggs inquired if it was the same process as before and Mr. Vellon responded in the affirmative. Mr. Mirisola then moved approval of Resolution 02-72. Seconded by Ms. Calvache and carried unanimously after the following vote:

AYES: Mirisola, Vazquez, Romero, Calvache, Wiggs

NAYS: None

22. Consideration of alternatives available under the law in Mr. Frederick W. Muffelman's case, who retired in 1998 having selected an option which does not provide his wife with continued pension benefits after his death.

Mr. Vellon explained Mr. Muffelman's case, indicating Mr. Muffelman retired in 1998, selecting an option that provides full benefit to an eligible spouse. He noted, to qualify as eligible spouse, the "eligible spouse" has to have been married a year before retirement, at the time of retirement and at the time of death. He reported Mr. Muffelman remarried his wife three days before retirement, having been divorced since 1991, therefore, she does not qualify for continued benefits after his death. He indicated the City Attorney determined there is nothing else that can be done and the case had been considered closed. He added Mr. Muffelman has numerous health problems and keeps calling various individuals (Mayor, Council, etc.) for help. Mr. Vellon further explained Mr. Muffelman had called President Romero numerous times and he requested this item be part of the agenda today.

Attorney Wilkinson indicated Mr. Muffelman has called him various times. He then advised there is nothing this Board can do legally. He concurred with Mr. Vellon's summary and recommended no further action. President Romero directed the Retirement Plan Office send Mr. Muffelman a letter explaining the Board has discussed his case and was advised there was nothing more that can be done legally.

**23. Reconsideration of previous Board action authorizing an "employer contribution holiday" for the DWP due to overfunded Plan status.
Retirement Plan Manager comments**

Mr. Vellon reported this agenda item was requested by Mr. Mirisola. Mr. Mirisola commented due to the surplus of the Retirement Plan funds, the Department is not making their actuarially determined employer contributions. He indicated, based on the current market's volatility, if there is a decrease in funds, the Department would be required to make a larger contribution as opposed to the smaller amounts under the "employer contributions holiday". Mr. Vazquez suggested this can be discussed with the actuary at a future meeting.

24. Consideration of possible audit of all aspects of the Retirement Plan benefits calculations, including the various separation packages implemented over the last years.

Mr. Vellon reported this agenda item was requested by Mr. Mirisola. Mr. Mirisola expressed concern about the controls in place to verify the validity of two for one cases (service credit giving two years of service for every year worked up to specific maximum for members of some unions), and the Other Governmental Services (OGS) eligibility. Mr. Vellon explained the Plan staff currently have controls in place to verify OGS and "2 for 1" credits.

Attorney Donna Jones-Weisz reiterated the Retirement staff does extensive work to verify all documentation presented. Mr. Wiggs commented it was not productive to audit all the previous OGS or "Two for One" requests, but it is important to maintain controls for all incoming requests.

Mr. Mirisola also expressed concern relative to errors on calculations of retirement

contribution balances in some cases. Mr. Vellon indicated the Retirement staff has manual controls to verify all requirements of the Plan are complied with, and they do an excellent job at this.

Mr. Romero noted, since the controls are done manually, there is always a margin for human error and until the computerization of the Retirement Office is completed, it is important to double check all the information that is inputted. Mr. Mirisola requested Mr. Vellon present a report indicating what manual controls are used to verify all calculations.

25. Consideration of audit of the Retirement Plan file room.

Mr. Vellon reported this agenda item was requested by Mr. Mirisola. Mr. Mirisola expressed concern about the access to the file room, stating there are currently no security controls. He further indicated there needs to be a backup system for the files, in case files get misplaced or there is a disaster. Some discussion ensued regarding the backup of files.

Mr. Vellon reported there will be a Department-wide imaging project and the Retirement Office will look into participating in this project. Mr. Vazquez indicated Mr. Mirisola's concerns are valid. After additional discussion Ms. Calvache suggested, until the imaging project is started and there is a system for backing up the files, there should be some security controls implemented. Mr. Vellon informed Board members Ms. Tesseneer is already working on file room controls and it is possible a staff member will be assigned the file room responsibilities. He added he will prepare a detailed report of the controls in place and present it at a future Board meeting.

26. Consideration and possible referral to the Securities and Exchange Commission (SEC) or other investigative agency, of past Board conduct relative to the Plan's Investments.

Mr. Vellon reported this agenda item was requested by Mr. Mirisola. Mr. Mirisola indicated the Plan Managers had recommended other clients to sell certain securities while there were no records indicating they made similar recommendations to the DWP Plan of deteriorating stocks, resulting in losses of over \$18 million (on Crompton, Polaroid and WorldCom). He referred to Mr. Vellon's memo of 5/15/2002 addressed to Commissioner Leslie. He further stated the Managers have denied any violation alleging certain directives were given outside the Board's meeting room mid 2001, and no follow-up action has resulted.

Mr. Vazquez noted this item had been referred to the City Attorney. Attorney Jones responded this item had been on the "back burner". She reminded Board members they are in the process of renewing contracts with these Managers. After more discussion, Attorney Jones indicated she will reopen the matter and will report to the Board. Mr. Mirisola indicated this is alarming, due to the Magnitude of the losses, and it is important to try to recover these losses and possibly others losses not yet realized.

27. Consideration of investigation of employees who signed each others 1998 Staff Reduction Program (SRP) authorization documents while ineligible for such benefits.

Mr. Vellon reported this agenda item was requested by Mr. Mirisola. Mr. Mirisola expressed concern about the lack of “fraud protection” for retirement benefits. He indicated there should be discipline procedures in place, by DWP Management, relative to Managers who signed each other’s SRP when they were not eligible. Some discussion ensued and Mr. Wiggs assured the Board he will personally sign these type documents in the future. It was suggested future forms used by the GM could include some verbiage about consequences for fraud actions.

28. Consideration of renewal of Contract 120, between the DWP Plan and Segal Company (expires June 30, 2002).

Mr. Vellon reported this item was for the renewal of the contract with the Segal Company, the Plan’s actuarial firm. He indicated a draft contract will be presented to the Board for approval. Mr. Mirisola moved approval of Resolution 02-73. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Mirisola, Vazquez, Romero, Calvache, Wiggs

Nays: None

29. Consideration of renewal of Contract 118, between the DWP Plan and Sungard Financial Systems (expires July 1, 2002).

Mr. Vellon reported this item was for the renewal of the contract with Sungard Financial Systems. He indicated this firm provides portfolio inventory services to the Plan. He stated a draft of the contract will be presented to this Board for approval. He recommended adoption of Resolution 02-74. Mr. Vazquez moved approval of Resolution 02-74. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Mirisola, Vazquez, Romero, Calvache, Wiggs

Nays: None

30. Consideration of Board Member’s Travel reports.

Mr. Vellon indicated this item had been requested at a previous Board meeting and was presented as informational.

31. Consideration of proposed Retirement Plan Budget for fiscal year 2002 – 2003

Mr. Vellon reported the Plan’s Budget was included in the agenda packet. He noted funding (\$866,000) is being carried over for the Plan’s computerization project and \$10 million has been added for investment counsel, assuming there will be a full discretion investment setup. Mr. Vellon indicated the proposed Board resolution allows for Plan staffing in accordance with the Annual Personnel Resolution. He explained this included two senior clerk typist positions retained from the staffing originally earmarked for Health Plan Management. He noted the other Health Plan positions were returned to DWP. Mr. Vellon pointed out the Personnel Resolution encompasses two substituted Senior Utility Accountant positions to be used in place of the 2 authorized Assistant

Manager positions. After discussion Mr. Vazquez moved adoption of Resolution 02-75. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Mirisola, Vazquez, Romero, Calvache, Wiggs

Nays: None

32. Consideration of Request for Proposal (RFP) for the selection of an outside counsel for the Retirement Board.

Mr. Vellon reported President Romero suggested the Request for Proposal (RFP) for the selection of outside counsel be presented to the Board. He noted Attorney Jones provided various sample RFP's and these were used as reference. Attorney Jones noted the due date for the responses needs to be corrected and Mr. Vellon indicated that will done when the final RFP is issued. Mr. Mirisola thanked Attorney Jones and staff for the work done on the RFP and it was the consensus to proceed with the RFP as soon as possible.

33. Consideration of payment plan proposed by Ms. Linda Byrd to repay, to the DWP, the member contributions removed from her Los Angeles City Employees Retirement System (LACERS) account before she transferred to DWP under the reciprocal provisions.

Mr. Vellon provided a brief summary of this case and indicated Atty. Wilkinson's legal opinion was provided for review. He reported Atty. Wilkinson concluded, whether Ms. Byrd pays or not, the Plan has to recognize her 15 years of LACERS service for purposes of the DWP disability program. Discussion ensued and Atty. Wilkinson advised that once Ms. Byrd retires, her retirement contributions can be transferred to LACERS, since they have a provision for situations like this (wherein there is a shortage in the member's contribution account). He reiterated this resolution is strictly for the disability issues and if Ms. Byrd doesn't agree to the repayment in writing, she still has a debt with the Retirement Office and this will be pursued. Atty. Jones advised, at the time of retirement, Ms. Byrd might not be eligible for full retirement benefits due to the debt in question.

Ms. Calvache inquired if there will be documentation to ensure LACERS staff are aware of this situation in the event Ms. Byrd retires from LACERS. Atty. Wilkinson responded in the affirmative. Mr. Mirisola then moved approval of Resolution 02-76. Seconded by Ms. Calvache and carried unanimously after the following vote.

Ayes: Mirisola, Vazquez, Romero, Calvache, Wiggs

Nays: None

34. Consideration of the Boston Company's proposed amendment to the Plan's Investment Guidelines to provide for their management of the Plan's equity portfolio.

Mr. Harkins approached the table at the request of President Romero.

Mr. Vellon reported he is not recommending Board adoption of the Boston Company's

proposed addendum to the Plan's Investment guidelines (as exhibit A). He noted Boston Company representatives have been contacting some of the Board members on this issue and this item was added to the agenda at President Romero's request.

Mr. Harkins explained the addendum was required by the Company's compliance unit. President Romero inquired if the Boston Company will change the way the Plan's securities have been handled historically. Mr. Harkins answered in the negative. Mr. Harkins handed out a report, prepared by the Boston Company, and he explained it. He noted the Plan's low turnover was included in the report. President Romero stated any diversion of what has been done historically can jeopardize any potential future contracts.

Mr. Vellon inquired if the Boston Company could guarantee the historically low turnover will be maintained. Mr. Harkins indicated he could not answer this question. Mr. Vellon reiterated this should be enough reason not to accept the Boston Company guidelines. President Romero inquired if the Boston Company has looked into the stocks currently under the management of Highmark and Mr. Harkins responded in the negative, adding they will look into these and will provide a report on the expectations.

Mr. Vazquez commended Mr. Vellon for all his efforts in the negotiations of the contract issues with the Boston Company. He emphasized Mr. Vellon's actions have been in the best interest of the Plan and the vote of the Board should not be taken personally.

After more discussion Mr. Mirisola moved approval of Resolution 02-77. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Mirisola, Vazquez, Romero, Calvache, Wiggs

Nays: None

35. Consideration of Organizational Chart and reporting of the Retirement Office

Mr. Vellon reported this item was presented for information at President Romero's request. President Romero inquired of Mr. Wiggs why the Retirement Office was placed under Corporate Services. Mr. Wiggs responded he had requested a revision of the organizational chart and it was placed there only to reflect Corporate Services' clerical support of the Retirement office as needed.

36. Retirement Plan Manager comments

a) Legal Opinions received.

Mr. Vellon reported the summary of Legal Opinions received was included in the agenda packet.

Status of Benefits Statements Distributed to Employees

Mr. Vellon reported about the very poor service provided by the vendor responsible for the production of the Plan's Benefits Statements. He indicated a detailed report will be provided at the next Board meeting.

b) Update on pending death benefit payments.

Mr. Vellon reported Mr. Hal Lindsey and Mr. Gonzelo Cureton have assigned staff visit

the last known address to assist in identifying lost beneficiaries. He reiterated the valuable assistance received from retirees (DWPC-Net) who continue their efforts using their computers.

c) Retirement Plan data collection project.

Mr. Vellon reported the data collection project is still pending. He indicated there have been a few offers for the Senior System Analyst, one candidate has declined and one candidate is pending.

d) DWP Plan Newsletter for retirees (April 30, 2002 Edition)

Mr. Vellon reported the April 2002 Newsletter for DWP retirees was included in the agenda packet for information.

e) Update on new rollover provision under IRS rules.

Mr. Vellon reported some members of the Plan have requested the enhancement of the opportunities for their rollover options. He added this item had been pending until the State of California adopted a "Compliance State Status," under the IRS. Atty. Jones reported the State has just adopted this, and she will forward the written information to the Retirement Office.

f) General Items

Mr. Vellon referred to a report he wrote a memo to Commissioner Mary Leslie (May 15, 2002) concerning the state of the Plan (copies sent to Board members).

The Board meeting was adjourned at 11:36 AM

JAVIER ROMERO
President

DUAMEL VELLON
Secretary

SILVIA TESSENEER
Recording Secretary