

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

**MEETING – December 18, 2002**

**Present:**

Javier Romero	President
Dan Mirisola	Vice President
Lilly Calvache	Board Member
Annie E. Cho	Commissioner
Norma Bertrand	Retiree Member

**Absent:**

David H. Wiggs	General Manager
Ron Vazquez	Chief Financial Officer

**Others Present:**

Duamel Vellon	Retirement Plan Manager
Ellen Shimamoto	Assistant Retirement Plan Manager
Silvia Tesseneer	Recording Secretary
Donna Weisz-Jones	Assistant City Attorney
Mike Wilkinson	Deputy City Attorney
Neil Rue	Pension Consulting Alliance
Drew James	The Segal Company

The meeting was called to order at 10:08 am after the Pledge of Allegiance.

[Pledge of Allegiance]

Mr. Vellon indicated there was quorum of the Board. He then introduced Ellen Shimamoto as the new Assistant Retirement Plan Manager, filling the vacancy created by Tom Harrington. He indicated Ms. Shimamoto previously worked in the Retirement office for seven years, some time ago, and is an excellent addition to the staff. Ms. Bertrand and Ms. Calvache agreed with Mr. Vellon, adding they had previously worked with Ms. Shimamoto and she was an excellent choice.

Mr. Vellon reported items 1, 2, and 3 were submitted for consent approval as follows:

- 1. Approval of Minutes for the November 20, 2002 Board Meeting.**
- 2. Termination from Monthly Rolls as of December 2002:  
Retirement Resolution for December 2002  
Termination for Mary G. Jennings, Chris J. O'Connors, Eddie M. Thompson,  
Flossie B. Wyne and Helen V. Zucco from the December 2002 Survivorship  
Roll as a result of their deaths.  
Termination for Aram Albaro, William H. Bailey and Bryan J. Hoskin from the**

### **January 2003 Family Death Benefit Roll.**

Appointment of Guadalupe De La Fuente as Trustee for the minor children Alexis F. Adams and Adam R. Adams.

### **3. Authority to Purchase Commercial Paper from the List of Approved Issuers.**

Mr. Mirisola moved adoption of the above items 1 through 3 on consent. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Cho and Bertrand  
Nays: None

### **Public Comments**

President Romero inquired if there were any public comments and there were none.

Mr. Vellon reported items 4 through 16 were submitted to be received and filed, noting item 16 represented the amendment to the custodian contract #119 (approved by the Board at the last meeting) and it represents a formalization of the reduction of the 35 basis points to 10 basis points for the STIF fund fees. President Romero reported the initial contract with the Bank of New York was 35 basis points and Mr. Vellon managed to negotiate it down to 10 basis points providing significant savings, especially in a full discretionary environment. He added the Bank of New York called, as of last week, and were issuing a \$40,000 refund for the period August through November, which equates to a savings of approximately \$120,000 a year. President Romero thanked Mr. Vellon, on behalf of the Board, for the considerable savings he has contributed to the Retirement Plan.

- 4. Special Board Minutes of November 14, 2002.**
- 5. Benefits Committee Minutes of November 20, 2002.**
- 6. Report of Payment Authorizations as of November 2002.**
- 7. Short Term Investments as of November 30, 2002.**
- 8. Stock Portfolio Listing as of November 30, 2002.**
- 9. Report on Long Term Investments (Bonds) as of November 30, 2002.**
- 10. Security Transactions for the month of November 2002.**
- 11. Distribution of Securities by Type and Class as of October 31, 2002.**
- 12. Statement of Investments owned as of October 31, 2002.**
- 13. Equity Investments as of October 31, 2002.**

14. **Notice of Deaths as of November 2002.**
15. **Correction of Retirement Plan Election Schedule (Appendix A) as submitted by the City Clerk's Office.**
16. **Amendment to Agreement No. 119 Custodianship Agreement between Water and Power employees' Retirement Plan and Bank of New York.**

Ms. Calvache moved the above items 4 through 16 be received and filed. Seconded by Ms. Mirisola and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Cho and Bertrand

Nays: None

17. **Consideration of Request by Trustee Anne King, for Raymond E. Mendenhall's monthly pension to be sent to his Irrevocable Trust (created under Arizona Court Order) rather than to his residential address, against the objections (through his caregiver) of Mr. Mendenhall.**

Mr. Vellon reported the Retirement Office handed out a new resolution and legal opinion just received on Mr. Mendenhall's case. He provided a brief history of Mr. Mendenhall's case, stating he was a 95-year-old retiree living in Prescott, Arizona, declared to be, (in Arizona) a "vulnerable adult", (which does not represent disability but indicates susceptibility to be taken advantage of by other people). Mr. Vellon also reported an irrevocable trust was created for Mr. Mendenhall in 2001, and the trustee (Anne King), along with the attorney for the trust, requested the retiree's pension be directly deposited into the trust. He stated the young couple Mr. Mendenhall resides with (who took him in and charge him monthly) prepared a letter for Mr. Mendenhall to sign, requesting his pension be sent to the address of his caretakers and not deposited into his trust. Mr. Vellon stated, due to the controversy, the matter was referred to the City Attorney, and they initially concluded the pension be sent to Mr. Mendenhall's residence and not deposited into the trust. He reported, subsequently, the City Attorney was in contact with the attorney for the trust and a new legal opinion, along with a new resolution, was submitted, advising the pension be paid to the irrevocable trust. Mr. Vellon recommended the adoption of resolution 03-53 as modified in line with the most recent recommendation of the City Attorney.

Ms. Calvache inquired if anyone has been in contact with Mr. Mendenhall. Mr. Vellon responded he attempted to talk with the retiree, but the caregivers insisted Mr. Vellon communicate through them as caregivers.

President Romero indicated he received the revised legal opinion the morning of the Board meeting, and inquired what happened between the time the agenda was distributed, wherein the request was clearly denied, and today's amended resolution and opinion clearly approving the request. Attorney Wilkinson responded, after doing legal research and review on the matter, it appeared to be a trust issue and under the trust law there was not reason enough to take

Mr. Mendenhall's pension away from him. He added, subsequent to this, the trustee's attorney sent additional information, which shows the findings of the Court that Mr. Mendenhall was a "vulnerable adult" and is not able to go and handle his financial affairs as it relates to the pension fund. Attorney Wilkinson explained, with these new findings, he immediately submitted a new report to Mr. Vellon by fax, so the Board would have all the necessary information to make a proper decision.

Mr. Mirisola inquired about the letters presented in the package, which included a July 19 letter from Jensen Law Firm (the attorney of the trust), stating he gave a stipulated order of relief assigning the retirees' retirement checks into the trust and if Mr. Wilkinson had received this. Attorney Wilkinson responded, according to the attorney of the trust, this letter did not contain the finding necessary to prove Mr. Mendenhall was incapable of handling his own affairs, which is the key factor. Attorney Weisz-Jones stated the City Attorney's office received, Monday morning, a stipulated order stating the Court's findings, without the underlying documents showing it was akin to a conservatorship. Mr. Mirisola commented in August, Mr. Vellon pointed out the trustee characterized Mr. Mendenhall as a "vulnerable adult" back then and if the City Attorney received this information also. Attorney Wilkinson responded there was no finding of any Court, only an issue according to the trustee, and this was not enough to deem the retiree incapable of handling his own affairs. He added this was the missing link the City Attorney did not possess until Monday morning. President Romero expressed he agreed with the second opinion of the City Attorney's office stating Mr. Mendenhall's pension be deposited into his Trust. Ms. Calvache indicated she agreed with President Romero. And moved adoption of Resolution 03-53. Seconded by Mr. Mirisola and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Cho and Bertrand  
Nays: None

**18. Resolution Requesting the Study and Possible Reclassification of the Retirement Plan Manager Position and Restoring the Retirement Plan Manager's Housing Allowance.**

President Romero indicated he placed item 18 on the agenda and it was self-explanatory. Commissioner Cho indicated, since she was new to the Board she wished to abstain from voting on item 18. Attorney Weisz-Jones, clarified for the record, Commissioner Cho's abstention counts as a "yes" vote if she was in attendance of the Board meeting. Commissioner Cho responded, in that case, she would withdraw her abstention and vote. Attorney Weisz-Jones clarified the Board does not have the legal authority to grant the housing allowance or increase for the Retirement Plan Manager's position and her understanding is that the Department can look into it, but it is something that is in addition to the regular salary schedule and needs approval, whether through City Council or the Department. She suggested the Board have the Department look into the reclassification of the position and, in addition, specifically look into including a housing allowance.

President Romero proposed amending the resolution. Ms. Bertrand interjected, inquiring before the Board amends anything, why they were even considering restoring the housing allowance since it is usually for temporary relocation. President Romero, indicated he did not agree with this, stating there are executives who have permanent housing. Ms. Bertrand asked who those executives were. President Romero, responded Mr. Wiggs (General Manager) for one, and that there could be others. Ms. Bertrand stated she was trying to find the underlying reasons for restoring the housing allowance. Mr. Mirisola commented, when Mr. Vellon was initially hired, it was the full intention of the Board (and probably represented in record), he would receive a pay increase at the end of his probation. He added Mr. Freeman wanted to pay Mr. Vellon top step initially and the Board decided to base the pay increase on his performance, so as a Board, they would have some form of rewarding the employee for good work, as opposed to giving the employee an increase and then having to take it away. Mr. Mirisola indicated, through negotiations with human resources and through Mr. Freeman and others, they were able to procure Mr. Vellon a housing allowance. Ms. Bertrand clarified it was generally the policy to give a housing allowance for the relocation when bringing on new executives. Mr. Mirisola explained the housing allowance was to be initially for a year but was cut off for no apparent reason. He stated Mr. Vellon said it was okay, but it was documented by the Board and moved forward through human resources to make sure he received it because there was a verbal agreement with Mr. Vellon to pay him a housing allowance.

Ms. Bertrand inquired who pays the allowance. Mr. Mirisola responded the Department pays the allowance, but the Human Resources Department negotiated this through the General Manager's office as part of Mr. Vellon's package. He added, the original contract was breached and he feels Mr. Vellon should receive a pay increase as stated, if he performed well, which he has. He noted Mr. Vellon received excellent reports for the whole year, there has never been any problems with him and he has so far produced significant savings to the Plan. Ms. Bertrand inquired if the Board had ever considered giving him a performance bonus. Mr. Mirisola responded he didn't feel a performance bonus was necessary, just the step increase he is entitled to, however President Romero and Mr. Wiggs have had some discussions on this.

Mr. Romero suggested since the attorneys are recommending the issue is beyond the Board, there is no point in discussing it further and to just refer it to Mr. Wiggs. Attorney Weisz-Jones clarified the Board does have the authority to make a request and does not need a motion to do so. She added the Board should certainly take this matter up with the General Manager (David Wiggs). Commissioner Cho expressed (without passing judgment on Mr. Vellon's performance) she needed more time to figure out why the Board is submitting the request, and in principle, her view is if the Board is going to reclassify someone, there needs to be concrete reason, otherwise you are setting a poor precedent. Mr. Romero clarified all the resolution was requesting was for a study to possibly reclassify the position. Commissioner Cho responded the Board should consider

the next person who comes before this Board and says they have all the right reasons to request the study. Mr. Mirisola responded Mr. Vellon did not request this resolution. Commissioner Cho responded item 18 requests a study and possible reclassification and this is why she requests more time, but if her being present requires her to vote, she will do so accordingly but the reclassification is something she does not feel comfortable with.

Ms. Calvache suggested the Board wait until the Department takes a look into it. Attorney Weisz-Jones stated if the Board would like the Department to look into it, then the request can be made to do so. Mr. Mirisola inquired, if that was in fact, what the resolution was stating. Ms. Weisz-Jones responded it did, except for the second part regarding the housing allowance. Ms. Calvache indicated the Board made a previous decision to give Mr. Vellon an allowance. Ms. Weisz-Jones clarified the Board does not have the authority to do so. President Romero commented the Board was involved in the hiring process of the Plan Manager, but not the details on the salary and the housing arrangements. Mr. Mirisola suggested amending the resolution by omitting the housing allowance until it was looked into. The discussion continued regarding the General Manager's consideration of the request for reclassification and whether or not the Board needed a motion to request the study.

Mr. Vellon expressed he did not appreciate the matter being under a split vote, given the discomfort expressed by Commissioner Cho (and Ms. Bertrand) while the remaining three Board members being in favor. He recommended the Board refrain from acting on item 18. He stated there must be some underlying reason for the split vote, that he is not aware of, and it would be best for the Board to do nothing. President Romero commented he certainly does not feel the Board should desist on the issue, because the work and experience Mr. Vellon has brought to the Board is unprecedented and the Board needs to recognize this. He stated, for the Board not to even consider a study for possible reclassification, is very upsetting. Mr. Vellon expressed it was upsetting for him too, because he felt proud of his accomplishments and performance at DWP, but it is a question of working with the Board. He emphasized, if two Board members feel uncomfortable, he does not want to be the source of putting a hurdle in the Board's progress and he again suggested moving on to the next item and just forget about this item. As a result of Mr. Vellon's statements, President Romero indicated there would be no action taken on item 18.

[Item 18 was reopened later in the meeting, see more discussion under item 22]

**19. Consideration and action relative to Law Firm Bailey & Associates' late response to the DWP Retirement Board Request for Proposal (RFP) for legal services.**

Mr. Vellon outlined item 19, reporting the Board completed an RFP for the selection of a fiduciary counsel and the Law Firm Bailey & Associates were late in their response to the RFP by 21 days. He added Attorney Bailey sent a letter to the Board indicating they incurred problems accessing the Board's web page,

and, as a result, they contacted the Retirement office and talked to a staff member, who in turn promised to send a hard copy of the RFP. Mr. Vellon indicated the law firm claims they never received it, but there has been no evidence of a problem with the web page or that the firm contacted the Retirement office. He noted the law firm requested consideration and acceptance of their response to the RFP, despite it being 21 days late. Mr. Vellon reported the City Attorney issued a legal opinion, which was included in the Agenda packet.

Commissioner Cho inquired if there was a specific reason item 19 was being brought back before the Board, because it had been on the agenda for a previous meeting. Mr. Mirisola responded Item 19 was tabled pending a legal opinion from the City Attorney's Office. Attorney Weisz-Jones clarified the City Attorney's office did not have the package until two days before and did not know the only thing the Plan had was the one letter. Commissioner Cho commented she was inquiring to see if Bailey & Associates had submitted documents to the Board since that time. Mr. Vellon noted Bailey & Associates had been made aware the item was on today's agenda, as well as on last meeting's agenda and did not submit additional documentation.

President Romero reiterated what Mr. Vellon had previously outlined regarding the matter with Bailey & Associates. He stated the date the firm called was before the deadline of the RFP and the Board has received a legal opinion expressing there could be litigation whether the Board decides to accept the RFP or not. Attorney Weisz-Jones disagreed with President Romero, stating the Courts are very clear that there must be strict compliance with the RFP limits unless something out of the ordinary occurred. She added the chances of being sued for non-acceptance are nil, but if the Board did accept the late RFP from Bailey & Associates, the Board members would be opening themselves up to potential litigation. Attorney Weisz-Jones emphasized the Board needed to keep in mind if they make an exception for the late submission at this time, there is a chance they could be faced with this same issue regarding future RFPs going out for the money managers. President Romero stated he felt it was not unreasonable the firm had problems accessing the web page because there have been problems with web access before. Commissioner Cho expressed if in their letter, Bailey & Associates states they spoke with someone in the office (requesting a hard copy of the RFP on August 7) and the RFP deadline was August 21, why did they wait another three weeks before addressing the problem. She added, she felt very uncomfortable penalizing those who were successful in meeting the deadline, especially given the legal opinion by Attorney Weisz-Jones, and if the Board sets a deadline, everyone should adhere to it.

Mr. Mirisola commented, the City has its right to make decisions regarding deviations from bid instructions, so it would be up to the Board if they decided to waive the deadline under documented special circumstances. Attorney Weisz-Jones concurred with Mr. Mirisola, adding the Board has the discretion to accept or reject deviations from strict compliance, however, the Court will look at the matter with strict scrutiny, so there must be very substantial reasons for doing so.

She stated the City Attorney's best legal advice, (given to every Board and Commission in the city of Los Angeles) is to refrain deviating from strict compliance, unless there are some very specific compelling reasons to do so. Mr. Mirisola suggested developing a bid protest procedure, because if one had already been in place there would have been guidelines establishing what to do in case of extenuating circumstances. He added the Board needed to decide whether or not it was reasonable the firm attempted to submit the RFP and he is willing to give them the benefit of the doubt. Ms. Calvache commented her main issue was, Attorney Bailey did follow up once he could not access the website, by calling the Retirement office and requesting a copy of the RFP be mailed to him. She expressed her mixed feelings between the deadline not being met and Mr. Bailey's attempts to resolve the problem and the documentation he submitted.

Mr. Mirisola suggested the Board allow the RFP in, because this would not mean the firm will even qualify and there were very few RFP responses received. Commissioner Cho responded, she disagreed, because the whole point of going through the RFP process is not only to see the respondents' capabilities, strategies and plans to satisfactorily complete the contract, but also to demonstrate their ability to meet deadlines and document all their work. She emphasized, if Bailey & Associates called on August 7<sup>th</sup> and did not receive the hard copy, why would a reasonable person wait until August 21<sup>st</sup>, and what kind of message would the Board be sending to the other respondents, who did comply. She stressed the need to run the operation like a business.

Mr. Mirisola insisted the RFP response be admitted; adding the firm Bailey & Associates is already on contract with DWP. More discussion continued between Commissioner Cho and Mr. Mirisola. He then indicated he was persuaded by Commissioner Cho's arguments and expressed he would support the rejection of the late RFP. Mr. Mirisola then moved adoption of Resolution 03-46 reflecting the RFP be rejected. Seconded by Commissioner Cho and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Cho and Bertrand

Nays: None

Mr. Vellon noted, for the record, resolution 03-46 will reflect the Board is rejecting the proposal.

## **20. First Quarter (September 30, 2002) Performance Evaluation by Pension Consulting Alliance.**

Mr. Neil Rue (Pension Consulting Alliance) approached the table.

Mr. Rue began the September 30, 2002 quarterly report, outlining the portfolio highlights, stating it was a horrendous quarter in the financial markets and LADWP's portfolio was valued at \$5.1 billion as of said date. He reported, during the quarter, LADWP's portfolio lost approximately \$575 million worth of market value. Mr. Rue

provided an economic review, stating bonds produced significant positive results while equity markets were down 15 to 20 percent for the quarter. He added, since September 30 (through November) the equity markets have gone back up 15 to 20 percent, but the average pension plan was still down approximately 10 percent. He reported emerging markets was the best performing equity market sector, while all the other markets were producing poor results and there was cyclical behavior in real estate.

Mr. Rue further reported LADWP's total portfolio declined over the last quarter 5.5%, largely due to the domestic equity portfolios underperforming by 200 basis points for the quarter. He stated, in the past three years, LADWP's numbers outperformed its policy benchmark by a significant margin as well as the last five years.

Mr. Rue reviewed one of three manager's performance (the first time under discretionary mandates), for the latest quarter, stating the portfolio managed by The Boston Company (previously Highmark) produced the best return, but was still down 17%. He stated another Boston Company portfolio, having a broader cap spectrum and exposure to small cap value stocks, was down 20%. He also reported TCW produced a slightly higher turnover on their portfolio, with the same results, down 19.7%, and Standish Mellon Asset Management's exposure to fixed income corporates hurt them, relative to the benchmark. Mr. Rue noted mid-cap value was the place to be for the last 12 to 18 months, and Boston Company has more exposure to those stocks than TCW.

Mr. Rue indicated PCA was on schedule related to the seven manager searches for LADWP over the course of the next three or four months, (to be completed by mid-April). He stated seven major players in indexing industry responded to the RFPs issued for domestic passive (where half of the equity portfolio will be exposed), the criteria has been set and three finalists will be eventually considered by the Board for interviews scheduled for late January. He added the active RFPs have been issued and over 100 phone call responses and e-mail were received.

President Romero inquired if Mr. Rue could update the Board on concerns regarding insurance requirements. Mr. Rue responded there were some contractual issues raised when reviewing the manager contracts for Boston Company (and Standish Mellon) dealing with insurance subrogation type clauses. He explained the RFPs issued contain the same criteria, the standard DWP subrogation language, as a minimum requirement, but allowing the managers to respond to it if they had some issue with the level of exposure in the subrogation issue. Mr. Rue emphasized it was included as a minimum requirement, and there was a page in the RFP inquiring "do you qualify" and the respondents have to respond, and if the answer is "no", they are allowed to elaborate and explain. He added, only 10 to 20% of the management community contacted PCA regarding the issue and PCA considers this on the borderline of being immaterial.

Mr. Rue stated PCA has developed some very good criteria to bring in the high quality managers, but the question is if this can be considered overly exclusionary when it comes to minority and women owned firms. He added PCA wanted to raise the issue to see if it was a concern to the Board. President Romero responded this was a different agenda item that can be addressed at a later date. He then inquired when the Board

could expect dialogue on the initial process on the passive index manager. Mr. Vellon responded, Ms. Tesseneer was coordinating the schedules with all Board members and PCA had proposed various dates for the different stages, but staff had not yet received all responses from Board members.

Mr. Rue indicated PCA was still shooting for January 28 and he will send Ms. Tesseneer the draft guidelines to make these part of the manager contracts. He added everything is moving smoothly. President Romero thanked Mr. Rue for his presentation.

Mr. Rue left the meeting.

**21. Consideration of DWP Retirement Plan Annual Actuarial valuation and review as of June 30, 2002 (Presentation by Actuary Paul Angelo).**

Mr. Drew James (The Segal Company) approached the table.

Mr. Vellon indicated item 21 involves a presentation of the Plan's annual actuarial valuation by The Segal Company. He explained this report is considered by the Board every year and is the basis for billing the Department for the new employer contributions rate, in addition to the contribution rate paid by the members.

Mr. James introduced himself and indicated he would be presenting the July 1 2002, actuarial valuation, its purpose being to look at the funding status of the Retirement Plan and determine any modifications and contributions necessary. Mr. James reviewed significant issues occurring in the valuation between July 1 2001 and June 30, 2002. He stated under the actuarial valuation of assets, these earned a return of about 3.4%, and this resulted in a loss of approximately \$265 million, when measured against the assumed rate return of 8%. He stated the salaries for the continuing employees increased by 4.4%, an increase smaller than the assumed rate of 5.5%, producing an actuarial gain of \$15.2 million for the Plan. Mr. James reported, as a result of those increases and the significant benefit increases the members received over the year, the required contribution is now in excess of the rate represented by the 110% member contribution matching paid by the employer every year.

Mr. James reviewed benefit improvements, which increased the Plan's required contribution by 5.86% of pay, such as the addition of Ad-hoc COLA, the extension of the unreduced early retirement window, increase in benefit accrual factors for members age 55 with 30 years of service, increase of the maximum benefit, and the increase in the level of pre-retirement death benefits.

Mr. James compared the 2001 and 2002 valuation results, noting the increase in the contribution requirement from \$26.3 million to \$41.4 million and the funding market value element decreasing from \$6,157,205,512 to \$5,671,141,200. He added the actuarial valuation of assets dropped approximately \$43 million, which reflects the impact of the smoothing technique used in amortizing the unrealized asset depreciation. He stated the actuarial accrued liability has gone up roughly

8% and the level of overfunding has decreased significantly from \$527 million June 2001 to \$75 million June 2002.

Mr. Vellon inquired if this means the overfunding status was almost wiped out. Mr. James responded it was almost wiped over the one-year period, and this had a significant impact on employer contribution rates. Mr. Mirisola commented the significant reduction in over-funded status would not have been as dramatic if the Board had not given the Department an “employer contribution holiday” for four years. He added all those years of not contributing have caught up with the Plan and the Department. Mr. James responded, when employer contributions are not at the actuarial level, eventually those have to be paid off and it is an issue of timing. He added any contributions that had not been made in the past, now have to be made with interest. Mr. James continued his comparisons, stating the over-funded ratio dropped from 110% to 101%, emphasizing the Plan liabilities are still fully covered by the assets as of June 30, 2002.

Mr. Vellon inquired how the actuary characterizes a 101% funding, in terms of the health of the Plan. Mr. James responded, the liability being compared to the assets is the target level of assets for the Plan, consequently, if all the funding methodology and actuarial assumptions hold true, and all contributions come in on time, there is 1% more asset than needed to be exactly on schedule. Mr. Vellon inquired how this compares to other public plans The Segal Company does business with. Mr. James responded it was within mainstream, but DWP’s is better than those he had seen this year. Mr. Vellon inquired, if the employer contribution rate is 8.66% of the covered payroll, and the Department matches member contributions by 110% (equating to 6% of payroll), the employer must be billed for the difference of approximately 2.6%. Mr. James responded in the affirmative.

Mr. James reviewed the contribution determination of 2001 and 2002. Mr. Vellon commented this was the first time the 110% match was a necessary contribution and inquired if the 2.61% would be effective January 1, 2003 or July 1, 2003. Mr. James responded the earlier the contribution increase can be put into effect, the more effective it will be and if it is delayed until July 1, any amounts that are not contributed over the first six months of next year will end up being an actuarial loss of next year’s valuation and next year’s employer contribution would be slightly higher. Mr. Vellon inquired if it was advisable to make it effective January 1. Mr. James responded in the affirmative and continued by reviewing the reconciliation of July 2001 and 2002 contribution rates.

Mr. Vellon commented the actuarial situation just presented brings to the table the fact that often times the Board talks about the overfunded status (not long ago the Plan had approximately \$520 million over-funded) and this is something which can disappear at any point in time. He noted just last year the Board was told technically the retirement Plan didn’t need any employer contributions because the Plan was well over-funded, but this year Board members are told only a \$75 million cushion exists over the 100% funding. He emphasized how

volatile the overfunded status can be and how careful all parties have to be in terms of using excess funding for benefits and such. Mr. James commented it illustrated very succinctly how bad the investment market has been and no one could have predicted this. Mr. Mirisola commented DWP's Plan is doing very well under the circumstances, but there are going to be fluctuations. President Romero thanked Mr. James for his presentation.

Mr. James retired to the audience.

Mr. Vellon explained resolution 03-56 represents the Board's formal adoption of the actuarial report, as well as the employer contributions rate the Department would be billed at. Mr. Mirisola moved adoption of Resolution 03-56. Seconded by Ms. Calvache and carried by majority vote after the following vote:

Ayes: Romero, Mirisola, Calvache, and Bertrand  
Nays: Cho

## **22. Consideration of DWP Retirement Plan Personnel Study and recommendations.**

Mr. Vellon presented item 22, expressing the staff in the Retirement office have worked very diligently in servicing the retirees and members. He added staff have functioned extremely well under the demands of the changes of the retirement Plan (e.g. SRP, reciprocity issues with LACERS, and rollover issues, etc.). He stated, adoption of the resolution would send a message to the staff the Board cares about their performance and contribution to the Plan. He then recommended adoption of resolution 03-54 as presented. Mr. Vellon reported Mr. Pech (DWP Retirement Office) conducted the study, and initially this was requested of the Human Resources and City Personnel Department, but neither had staff available to conduct such study. He further explained both units suggested Mr. Pech (who formerly worked for Personnel) conduct the study as he had the necessary expertise. Mr. Vellon stated Mr. Pech submitted the completed study and Board support of the study is sought, in principle, subject to further discussions with the General Manager's executive staff (Mr. Hokinson and Human Resources) to hopefully work expeditiously on implementation. Mr. Vellon indicated members of the staff were present and it would be a great opportunity for the Board to send a clear message they are appreciated for their hard work. He again recommended adoption of resolution 03-54.

Mr. Mirisola inquired how the resolution requesting the study for reclassification was different from resolution 03-31 for Mr. Vellon under item 18 of the agenda. He stated the Board obviously didn't send a message of support to Mr. Vellon. Mr. Vellon expressed he respectfully requested the Board not do the same to the staff and again recommended adoption of the resolution, in principle, to show them support. Mr. Mirisola expressed he agreed the Board needed to approve the resolution, however, he felt it was no different from the resolution regarding Mr. Vellon. Mr. Vellon emphasized this is the way things are sometimes and the Board should move on. Mr. Mirisola emphasized the Board needs be consistent

in what they do and the previously discussed situation regarding Mr. Vellon is regrettable. He suggested approval of the resolution, but requested the Board reopen resolution 03-31. Mr. Mirisola then moved adoption of Resolution 03-54. Seconded by Ms. Calvache, who congratulated the staff on their hard work and dedication to the members (retired and active) of DWP and she was in full support of the study. President Romero expressed the same sentiments as Ms. Calvache.

Commissioner Cho again indicated she would like to abstain from voting and was not passing judgment on the employees, but did not feel comfortable voting on something she didn't know anything about. Ms. Calvache commented she felt very comfortable supporting this and she has witnessed the kind of work the staff has done. Mr. Vellon expressed he would put his reputation and experience with the staff on the line, and requested Commissioner Cho vote in support of the motion to convey a message to the staff the Board cares, unanimously, about their work performance. The City Attorney's office representatives reiterated, abstaining counts as a "yes" vote. Resolution 03-54 was carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Bertrand  
Nays: None  
Abstained: Commissioner Cho

Mr. Mirisola moved to reopen discussion of item 18, seconded by Ms. Calvache. Attorney Wilkinson stated the motion failed. Mr. Mirisola clarified the Board did not act on or vote on item 18. Mr. Mirisola's motion to reopen item 18 carried by majority vote after the following vote:

Ayes: Romero, Mirisola and Calvache  
Nays: Bertrand and Cho

Mr. Mirisola moved approval of the resolution under item 18, with the correction of the General Manger to do a study for reclassification of Mr. Vellon, with the omission of item 2 under "be it resolved", seconded by Ms. Calvache and carried by majority vote after the following vote:

Ayes: Romero, Mirisola and Calvache.  
Nays: Cho and Bertrand

Mr. Mirisola commented Mr. Vellon now knows where he stands.

### **23. Consideration of Retirement Plan amendment to increase the Death Benefits provided, consistent at with the Retirement Board's action of May 24, 2001.**

Mr. Vellon explained item 23 was briefly discussed at the last Board meeting. He added the Retirement Board had approved the possible amendment to the Plan to increase the family Death Benefit and the Supplemental Death Benefit.

Commissioner Cho indicated, given the studies and information already considered by the Board, she would be supportive of forwarding this information to the Board of Commissioners. Mr. Vellon explained, the resolutions previously adopted by the Board (in 2001) were included in the Agenda packet and these were intended to increase the family death from \$160, with a maximum of \$450 per month, to \$416 with a maximum of \$1,170; and the supplemental death benefit of \$200 with a maximum of \$410 would be increased to \$520, with a maximum of \$1,066. Mr. Vellon stated the resolution to reactivate and refer this Plan amendment to the Board of Commissioners is also included in the Agenda packet.

President Romero commented he had been working on this item with Mr. Peter Lakatos, who in turn was having discussions with the City Attorney's office and the labor unions, to make sure there was nothing to hold the Board back from moving on the item. He added he felt very strongly about item 23 in the wake of the recent deaths of active members who have left children, some with no parents. He stated the key reason of the Board is to provide benefits for beneficiaries and the member's children and inquired if there was a motion for approval. Mr. Vellon stated, for the record, he was expecting Mr. Lakatos to be present because there was no official indication from Mr. Lakatos the "meet and confer" process has been taken care of, therefore, it would be appropriate to make sure the Board receives a letter from Mr. Lakatos to confirm this and in the mean time move the items forward. President Romero indicated this was based on a conversation he had with Mr. Lakatos last night and he was sure Mr. Lakatos would be happy to provide the Board with the letter. Mr. Mirisola commented Mr. Lakatos had previously made representation to the Board it was all taken care of and the Board could proceed on the matter. Mr. Vellon noted the letter from Mr. Lakatos would be included as part of the packet that goes to the Board of Commissioners. Mr. Mirisola then moved approval of Resolution 03-55. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Calvache, Cho and Bertrand  
Nays: None

#### **24. Retirement Plan Manager's comments**

Mr. Vellon clarified item 24 was generally a report he presents to the Board, however there was a request for comment on item 24 by retiree Ms. Dorothy Fuller.

President Romero recognized Ms. Dorothy Fuller.

Ms. Fuller introduced herself as a retiree with 30 years in the commercial customer services division, indicating she was not aware the DWP Plan newsletter for retirees was on the agenda at the time she filled out the form. She stated she called the DWP retirement office this morning inquiring about the specific time of the Board meeting. She suggested rather than having retirees call in for the Board meeting schedule, it be included along with other critical information to retirees in the newsletter. She added if

retirees want to attend the meetings they should not have to call, it should be in the newsletter. Mr. Mirisola indicated the Board had been through this topic before and recalled including the schedule for Board meetings in the newsletter and then there were issues raised by some, because meetings could be cancelled due to lack of quorum and retirees would be angry because they were not aware of the cancellation. He suggested the newsletter reflect regular Board meetings are held on the third Wednesday of the month at 10:00 a.m. He reminded all interested parties, meetings are sometimes cancelled and it may be advisable to call to confirm.

Ms. Cho suggested posting the date and time clarifying it is subject to change. Mr. Vellon confirmed what Mr. Mirisola stated about complaints when meetings are cancelled due to lack of quorum. He agreed the meeting schedule could be published in the Retiree's newsletter, but the parties must understand meetings could be cancelled and there is no way to inform 10,000 retirees efficiently, so they would still have to call in to confirm the meeting is still scheduled. Ms. Fuller suggested if the meeting dates and times were in the newsletter, members wanting to attend could call a recorded message stating, "The Retirement Board meeting will be held today or has been cancelled". Mr. Mirisola thanked Ms. Fuller for getting the message out that this was a problem and the Board would do their best to get the schedule out to the retirees. Mr. Vellon commented the retirees do not have to wait for a Board meeting to present issues or concerns, but can call the Retirement office.

**a) Legal Opinions received.**

Mr. Vellon reported the Board has received a summary of the legal opinions received on Mr. Mendenhall and the RFP process, and these were discussed earlier in the agenda.

**b ) DWP Plan Newsletter for retirees (December 1, 2002 Edition).**

Mr. Vellon reported the Board had already received a copy of the December 1, 2002 Newsletter for DWP retirees.

**c ) Domestic Equity Managers selection process.**

Mr. Vellon indicated the Board had been updated on the equity manager searches.

**d ) Request for proposals (RFP) advertisement.**

Mr. Vellon stated the Board has a copy of the advertisement posted in various newspapers for the RFPs for equity managers.

**e ) 2003 Election Bulletin/process.**

Mr. Vellon indicated the election bulletin had been issued and it was included in the Agenda packet and the process is going smoothly.

**f) General items.**

Computerization

Mr. Vellon reported Ms. Shimamoto had been asked to continue the computerization project and develop an RFP to implement it. He added between Ms. Shimamoto and Mr. Pech, the Retirement office should be able to present the Board (a package to develop an RFP for Plan computerization) in 3 to 6 months.

Pre-Retirement Programs

Mr. Vellon indicated Ms. Rose Garcia (from Human Resources) has reported progress on the formalization of the pre-retirement programs for all active employees. He added she will be out of town in January, but will present the Board with a final proposal in February.

Compilation of Retirement Plan Policies/Procedures

Mr. Vellon reported Mr. Tony Pech will be compiling all the procedures on file in the Retirement office, in order to have a Manual for permanent staff reference as needed.

The Board meeting was adjourned at 11:44 AM

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JAVIER ROMERO  
President

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DUAMEL VELLON  
Secretary

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SILVIA TESSENEER  
Recording Secretary