

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

MEETING – March 19, 2003

Present:

Javier Romero	President
Dan Mirisola	Vice President
Ron Vazquez	Chief Financial Officer
David H. Wiggs	General Manager
Norma Bertrand	Retiree Member

Absent:

Lilly Calvache	Board Member
Annie E. Cho	Commissioner

Others Present:

Duamel Vellon	Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Ellen Shimamoto	Assistant Retirement Plan Manager
Silvia Tesseneer	Recording Secretary
Allan Emkin	PCA
Mike Wilkinson	Deputy City Attorney
Donna Weisz-Jones	Assistant City Attorney

The meeting was called to order at 10:05 am after the Pledge of Allegiance.

[Pledge of Allegiance]

Mr. Vellon indicated there was quorum of the Board.

President Romero inquired if there were any public comments

Mr. Vellon indicated there were three requests for public comments.

PUBLIC COMMENTS

Board President Romero recognized Attorney Weisz-Jones.

Attorney Weisz-Jones approached the podium and introduced herself as legal counsel to the Board. She expressed she wanted to bring to the Board's attention two items not included in the Board package, as requested, and would like the items included in a future package. She indicated, on February 13th, Attorney Wilkinson sent a memo to the Board, written by Assistant Anthony Alperin, regarding a Brown Act issue as a continuing education for the Board. She stated the City Attorney's office requested the memo be submitted to the Board as received and filed but it was not included in last

month or this month's agenda. Attorney Weisz-Jones added, the City Attorney's office was concerned the Board received certain educational material, and it also be made part of the public record, for future Board members to look back into the records and see what kind of advice was given. She requested if the City Attorney's office does send a memo to the Board, it at least be put under received and filed and if the Board wants to ask questions it could then be placed on the agenda.

Mr. Vellon indicated he did not receive the item (referred to by Attorney Weisz-Jones). Mr. Mirisola acknowledged two letters were given to him. Attorney Weisz-Jones clarified one letter was hand delivered by Attorney Wilkinson regarding "the Wesley" case and she proceeded to provide copies to Ms. Tesseneer.

Attorney Weisz-Jones also stated there had been discussion, at the last meeting, concerning pre-tax purchase of service credits. She reminded, at the last meeting, she had stated the City Attorney's office would get something to the Board and did send a memo on March 6. Attorney Weisz-Jones argued there is nothing in the back of the agenda package for said legal opinion and, in the future, the City Attorney's office would like the Board to have a copy of what was submitted to the Board and to the Plan Manager dealing with what steps have been taken and the fact their advice has been consistent. She stated the City Attorney's office was receiving copies of memorandums sent to all the Board members indicating they were not doing their job and would like this to be part of the record. Attorney Weisz-Jones added she would be glad to follow whatever protocol the Board has, and suggested, if a City Attorney memo is written, giving legal advice, it be included in the legal memo received and filed section of the agenda, if submitted on time.

Mr. Vellon indicated he never received the correspondence Attorney Weisz-Jones just alluded to. Attorney Weisz-Jones insisted the memo was hand-delivered to the Retirement Office on either March 6th or 7th.

Board President Romero recognized Mr. James Woodard.

Mr. Woodard approached the podium and introduced himself as an employee of the Department who has been 100% disabled due to an on the job accident in 1982. He stated his maximum pay, at that time and since, is \$706 a month, which he argued is below the poverty level. Mr. Woodard expressed there has been a complete change in his lifestyle and he has since lost his house, motorhome and a few other items, however, the Department has helped him with housing and he is presently living in a convalescence home. He indicated at one time there was a buy-out SRP (Staff Reduction Program), and, at that time, he was in the Veterans Hospital and unable to receive his mail and by the time he was released from the hospital, the buy out time window had expired.

Mr. Woodard explained the Department had been working with him in coming up with a buy out figure, but he had no money to put into it, consequently, it never went down on paper or came to anything. He reported, since that time, there has been a personal injury civil rights claim, which is in the process of being signed off by the Department, giving him access to monies he has not had, other than the Workmen's Compensation.

Mr. Woodard also reported he has 5 years military service and never had a chance for a buy back, due to lack of funds. He indicated Ms. Michelle Brown, a previous DWP Retirement office employee, had been working with him on this. Mr. Woodard stated he was informed the Board of Commissioners was advised by legal counsel it would jeopardize his Worker's Compensation if the Department brought him back on board for a day or two, but his Workmen's Compensation attorney said this is not true. He requested the Retirement Board put him "back on the books" for a day, so he could use the money he will receive from the Department to put into the fund and pay back the 6% for the past 20 years he missed and the five years of military time.

President Romero explained to Mr. Woodard, reinstating him as an employee was not something the Retirement Board had the ability to do. Mr. Woodard responded he knows this is something he needs to work out with the General Manager of the Department. President Romero inquired what exactly was Mr. Woodard requesting of the Retirement Board. Mr. Woodard responded, if workable with the General Manger, he requests the Board allow him to buy back his 20 years of (disability) service, so he can live the few remaining years of his life a little more comfortably.

Attorney Weisz-Jones explained the Plan provides for purchase of military service if an employee is an active member of the Plan. She noted the Plan does not provide for the purchase of disability time. It was the consensus to include Mr. Woodard's request in a future agenda.

President Romero ruled item 21 be discussed next.

21. Consideration of late request for purchase of Other Governmental Service (OGS) military service filed by Mr. James Woodard (currently on Permanent-total Disability).

Mr. Vellon stated Mr. Woodard has a difficult case involving two requests. He explained Mr. Woodard's first request is to be reinstated as an employee, for one day, so he can qualify to buy-back his military time. He added Mr. Woodard claims he had specific circumstances preventing him from purchasing his military time when he was given the opportunity (under the SRP) in 1998. Mr. Vellon further conveyed, if Mr. Woodard were to work one day, this case would not even be brought to the Board, because he would then qualify to purchase the service.

Mr. Vellon explained Mr. Woodard's second request represented a bigger challenge as he has been on disability since 1982, and has not accumulated service credits. He added, under the Plan, disability time does not count towards service retirement. Mr. Vellon stated Mr. Woodard had approached Retirement Plan staff on this, but he had been informed this was most likely not possible. He added Mr. Woodard insisted on coming before the Board, under call to the Public, to see if this somehow could be explored.

Mr. Wiggs inquired if it was necessary to employ Mr. Woodard for one day in order to buy back his military time. Mr. Vellon responded military time could only be purchased by active employees or contributing members. He clarified Mr. Woodard claims he was

in the hospital during the SRP package in 1998, and he is requesting the Board make an exception and allow him to purchase his military time now. He reiterated the service for the time Mr. Woodard has been on permanent total disability (PTD), cannot be purchased. He added the Plan normally does not provide for this and Mr. Woodard was advised it would be a long shot for the Retirement Board to allow this, but he still wanted the Board's consideration under Call to the Public.

Mr. Woodard explained his time of service prior to the accident was a little under the amount needed to collect disability along with Worker's Compensation. Mr. Wiggs inquired if the Board had the ability to grant an exception in Mr. Woodard's situation of not being able to buy-back his military time when given the opportunity. Attorney Weisz-Jones responded, based on what the Board members have before them, they do not have the authority to make an exception. She stated the Plan is very clear about the requirement for a contributing member, but if Mr. Woodard wanted to present information it could be researched. Mr. Wiggs inquired if Mr. Woodard were to be reemployed would he have the right to buy-back his military time. Attorney Weisz-Jones responded the day Mr. Woodard is a contributing member, he has the right to buy-back his military time.

Mr. Wiggs then inquired if Mr. Woodard could purchase the time he has been on disability. Mr. Vellon indicated this was not the agenda item, but Mr. Woodard was informed the Plan is very specific and this service could not be purchased whether he is an active employee or not.

President Romero commented the only option appears to be if the Department allows Mr. Woodard to come back for one day, he can then buy-back his military time. Mr. Wiggs stated this is not within the purview of the Retirement Board and there is no ability to buy back the disability time under any circumstances.

Mr. Woodard stated he was initially informed, if he was on board as an employee, there was a possibility to purchase his disability time. Mr. Vellon clarified he was informed of this with regards to the military service, but he himself had consistently been telling Mr. Woodard he did not know how it would be possible for Mr. Woodard to purchase the disability time, because it does not count under the Plan.

Mr. Wiggs suggested letting the Department address Mr. Woodard's one day employee status, but he saw no way of getting time for disability. Mr. Woodard inquired if there was a special section in the Department's rules and regulations where it is indicated disability time cannot be bought back. Attorney Weisz-Jones responded under the trust law of the Plan, if the Plan does not expressly provide for a benefit then it does not exist.

Mr. Mirisola commented it had been pointed out in a previous public comment, employees injured at work get stuck in a "catch 22". He explained when retiring they receive a lowered amount of 15% or 16% of what they would have gotten after full (normal) retirement. He added there had been discussion of the Board of Water & Power Commissioners possibly looking into or talking to the unions about negotiating the ability of on-duty injured employees having the ability to buy back some of this

service, but this was as far as it had gone.

Mr. Vellon reminded the Board, in the interest of time, the issue of the disability time was just a public comment.

President Romero agreed with Mr. Mirisola, stating Mr. Woodard has presented his concerns to the Board. He added Mr. Wiggs has expressed his willingness to work with Mr. Salas, relative to facilitating buying back the military service, and, other than this, there is nothing else the Retirement Board can discuss, because it is not an agenda item.

Mr. Woodard inquired if he should have it placed on the next Board meeting's agenda. Attorney Weisz-Jones responded he could make an appeal to the Board to buy back the disability time. President Romero proposed putting it on the agenda and requested Mr. Woodard forward any pertinent information to the attorneys. Mr. Wiggs suggested Mr. Woodard sit down with the City Attorney's office and Mr. Vellon, to see if there was any latitude whatsoever with regards to his disability time. He added it did not appear this was something legal to do and reiterated he would work with Mr. Salas in coming up with something regarding the buy back of the military time, so the issue would not have to come back before the Board.

Mr. Mirisola inquired if there were any provisions in the Plan allowing the buy-back of annuity service credits. Mr. Vellon responded the annuity is only possible for active employees, based on contribution of 10% of pay. After a brief discussion, Mr. Woodard thanked the Board for their time and he was excused.

Mr. Woodard left.

Item 21 was tabled and Board members returned to public comments.

Public Comments

President Romero recognized Mr. Vince Foley.

Mr. Foley approached the podium and introduced himself as an officer of the Retired Employees Association and expressed he was also representing Dolores Foley, President of the Association, who could not attend due to illness. He stated he was present before the Board, to protest, in the strongest way possible, the actions of Mr. Mirisola, who came into their community of Arcadia (last October) to investigate him and his wife. Mr. Foley expressed it was highly inappropriate of any member of the Retirement Board to go into a retiree's home community and launch an investigation on the individual. He indicated Mr. Mirisola represented himself as being from the Securities and Exchange Commission (SEC).

Mr. Foley handed out an Arcadia request for public information form showing Mr. Mirisola had made the request on his behalf and also referred to the SEC. He reiterated it was inappropriate for any member of the Board to come into a retiree's community, and try, if not by specific information, at least by inference, to besmirch the reputation of

a retiree of the Department and an active volunteer for the retirees organization and community. He stated he was approached, regarding this issue, by the City of Arcadia's Manager, City Attorney, City Clerk, and Chief of Police, all wanting to know why he was being investigated by the SEC. Mr. Foley stated, after receiving a copy of the document, he explained to these individuals Mr. Mirisola was not a member, nor did he represent the SEC, and was just a "loose cannon" from the Department of Water and Power's Retirement Board. He stated Mr. Mirisola's apparent attempt was successful in making the top members of the management of the City of Arcadia aware there was an investigation going on, specifically about him.

Mr. Foley reported Mr. Mirisola's first request to the City of Arcadia, was for any and all files and information on Vince and Dolores Foley. He expressed he hoped the Board would share in his outrage and stated it was unfortunate Mr. Mirisola could not be fired, because he is an elected member. He requested the Board at least censor him and make it known to him, on the record, this behavior is inappropriate and not supported by the members of the Retirement Board. Mr. Foley suggested Mr. Mirisola do the honorable thing and resign his position, adding he had gone beyond the payoff in investigating retirees and owed he and his wife an apology. He reported he and his wife volunteer for the City of Arcadia's Police Department, Arboretum, Chamber of Commerce, the Heart Association, etc., and he could provide names and phone numbers to Mr. Mirisola for any further investigation. Mr. Foley emphasized Mr. Mirisola should not run investigations of retirees who contribute their time to DWP and to the welfare of all retirees and Mr. Mirisola should be "ashamed". He reiterated he hoped the Board shared his outrage about Mr. Mirisola's actions and censor him. He commented if there was some way to remove Mr. Mirisola from the Board it would help everyone.

Mr. Mirisola responded, since the Board was informed by past counsel they are permitted to respond to public comments, he would like to defend his integrity. He reported it was brought to his attention because a meeting was called by Vince Foley inviting a DWP division head Meryl Sundberg, who invited his supervisor (Mr. Greg Mathis) to a meeting where Mr. Foley made allegations Mr. Mirisola was trying to direct monies from the Plan to the union, giving this speech to several people in attendance at the meeting. Mr. Mirisola added he had notes to this effect, which he could provide to the Board. He expressed, since he is a public figure who has to fill out a statement of economic interest, and Mr. Foley who seems fully apprised on how to attend the meetings and "blast" the Board members quite frequently with all kinds of crazy ideas and allegations, and has run for public office in the City of Arcadia, he went to Arcadia on behalf of himself with the purpose of finding out if there were any documents relative to an SEC investigation for campaign contributions on anyone the Board does business with. Mr. Mirisola emphasized this was fully within his rights, the information is public record and he has the right to request public documents on the disclosure statements from the city of Arcadia.

Mr. Mirisola indicated he filled out the form, did not input anything other than the fact he was investigating, did not accuse the Foleys of anything, and the City of Arcadia Departments (alluded by Mr. Foley) did not ask him any questions. Mr. Mirisola reported he was provided documents, as public records stating the Foleys are paid

monies from Kaiser and American Concordia, which he believes are people they do business with through the Department of Water and Power on giving retirement benefits to the retiree's medical. He stated he took these documents and delivered them to the SEC, when providing other documents to them. Mr. Mirisola added, what the SEC did with those documents is up to them. He stated Mr. Foley's going to his supervisor, calling a meeting inviting them to attend in order to accuse him of trying to direct money from the Plan to the union, is totally unreasonable and made Mr. Mirisola wonder and ask himself where he would get these things from. Mr. Mirisola clarified he understands Mr. Foley is a pillar in his community and did not call for an investigation by the police. He reiterated he only went to see if there was any information on public record, which he is allowed to do.

President Romero expressed, hopefully, the Board could now move forward.

Mr. Wiggs expressed his only concern was Mr. Mirisola making his request as a representative of the SEC and not as an individual and feels it is unfortunate this entire relationship has deteriorated to the point it has. He added he certainly does not condone this behavior, but as an individual, Mr. Mirisola can do what he wants. Mr. Wiggs stated he hopes no Board member would take such actions on behalf of the Board without getting approval or endorsement from the Board and suggested everyone putting the incident behind them.

Mr. Vellon reported items 1 thru 4 were submitted for consent approval as follows:

- 1. Approval of Minutes for the February 19, 2003 Board Meeting.**
- 2. Approval of Special Board Minutes of January 29, February 7, 12 and 26, 2003.**
- 3. Termination from Monthly Rolls as of March 2003:
Retirement Resolution for March 2003
Termination from the March 2003 Survivorship Roll:
Grace G. Costley – death.
Termination from the February 2003 Permanent Total Disability Roll:
Elsie Dade – death.**
- 4. Authority to Purchase Commercial Paper from the List of Approved Issuers.**

Ms. Bhatia explained item 4 was a request to increase the minimum amount invested in commercial paper, stating the current limit was \$100,000. She stated increasing the limit to \$1 million would be more cost effective under the current spreads between STIF investments and commercial paper. She referred to the staff analysis, showing the difference in the interest rate to invest in commercial paper versus sweeping it in to the STIF (short term investment fund) account. She noted the difference on \$1 million for one day was only \$3.61, stating it was not cost effective to invest \$100,000 in commercial paper for one day given the existing interest rate attainable through STIF investments. She then recommended adoption of resolution 03-80.

Mr. Vellon added the policy adopted by the Board indicates if there is \$100,000 coming

in a single day, it must be invested in commercial paper and not the STIF fund. He clarified what Ms. Bhatia is proposing is increasing this limit to \$1 million, and even if a daily balance is up to \$1 million it be invested through the STIF fund (for one day). He added these amounts are then lumped with other cash flows (the following day), making it part of the next day commercial paper investments. Mr. Vellon reiterated the reason for this is the current narrow spreads between the interest available in STIF fund and commercial paper. He indicated, as the spreads change in the future, other recommendations will be made to the Board.

Mr. Wiggs moved adoption of the above items 1 through 4 on consent. Seconded by Mr. Mirisola and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Vazquez, Wiggs and Bertrand

Nays: None

- 5. Report of Payment Authorizations as of February 2003.**
- 6. Short Term Investments as of February 28, 2003.**
- 7. Consolidated Stock Portfolio as of January 31, 2003.**
- 8. Report on Long Term Investment as of January 31, 2003.**
- 9. Security Transactions for the month ended February 2003.**
- 10. Distribution of Securities by Type and Class as of January 31, 2003.**
- 11. Equity Investments as of January 31, 2003.**
- 12. Statement of Investments owned as of January 31, 2003.**
- 13. Notice of Deaths as of February 2003.**
- 14. Retirement Board Election Results (3-year terms May 2003 to April 2006).**
- 15. Update on appointment process – Retired Board Member representative.**

Mr. Vellon reported items 5 through 15 were to be received and filed. He highlighted Item 14 (regarding the Board election), showing the results were certified by the City Clerk's office and approved by the Board of Commissioners. Mr. Vellon reported there was a good turnout of 32.5% and the re-elected members received 70% or more of the votes and this information would be included in the active upcoming members newsletter.

Mr. Vellon stated item 15 was an update on the appointing process concerning the Retiree Board representative, since Ms. Bertrand is not available for re-appointment. He stated the Board of Commissioners adopted a resolution directing the Retirement Office staff to contact retirees for nominations, noting the process had already started.

Mr. Vellon indicated the retiree newsletter contained the procedure for submitting nominations, which was worked out between the Retirement office and the Board of Commissioners staff.

Mr. Vazquez moved the above Items 5 through 15 be received and filed. Seconded by Ms. Bertrand and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Vazquez, Wiggs and Bertrand

Nays: None

President Romero suggested changing the order of the agenda for discussion of items needing to be addressed by Mr. Emkin (PCA), to accommodate his early flight schedule (items 16, 19, and 18 were discussed next).

16. Consideration of DWP Retirement Plan current cash position.

President Romero recognized Mr. Emkin.

Mr. Emkin approached the table. Mr. Vellon explained item 16 represented the consideration of the DWP Retirement Plan current cash position, which is approaching the \$1 billion mark. He indicated Mr. Emkin had recommendations and options to present to the Board.

Mr. Emkin indicated PCA had already made their recommendations and the Board was provided with the information in writing and the opportunity to review it. He inquired if there were any questions or comments.

Mr. Mirisola commented he reviewed the material and preferred Option 2 and suggested Mr. Emkin provide a brief summary.

Mr. Emkin reported there had been a cash build up in the portfolio since the beginning of the restructuring period. He stated the bad news was the Plan has an asset structure, which does not have large cash allocations, and the good news was, for this period, being in cash was not a terrible thing. Mr. Emkin explained, as the asset structure was implemented, the goal was not to put the money somewhere and then have to move it again and suffer the cost and risks associated with those transactions. He indicated the cash would primarily go to the asset classes currently not represented in the portfolio, the largest being non-dollar (international) equities. Mr. Emkin stated PCA was recommending the Board consider changing the timeline and moving up international equities, so the cash is deployed more quickly and moving the fixed income search down the line. He noted other alternatives as doing nothing, which in his opinion was not a bad thing to do, or temporarily invest the money with another party, which, in PCA's opinion, would require an individual search and this really is not a workable alternative.

Mr. Vazquez inquired the amount of the International Equity and Emerging Market portfolio. Mr. Emkin responded his recollection of the amount was approximately \$800 million.

Mr. Vellon expressed one of the Board's concerns is cash has been reported as the worst place to be, long term, from a fiduciary responsibility standpoint. He added one of the dangers of investing is the market opens opportunity windows and sometimes when one is not exposed to the right long-term investment during these windows, one could actually miss an opportunity to perform for the long term. Mr. Vellon stated, given the Plan is approaching almost 20% in cash, the Board feels it is appropriate to see what recommendations PCA is making, but if Mr. Emkin is recommending holding onto the cash a little longer then so be it, but this is a dangerous decision.

Mr. Wiggs inquired what the schedule would be to move up the International Equity funds if the Board chose to do so. Mr. Emkin responded PCA could expedite things, but an aggressive estimation would be 60 days. He added an alternative would be having the existing managers act as fiduciaries, using discretion, and the assets could be allocated to the two existing managers, requiring nothing more than transferring the funds.

Mr. Mirisola commented this would increase the transition cost and inquired what it would save the Plan in the long run. Mr. Emkin responded there would be a cost associated, but there was a balance. He added putting the money anywhere would incur transaction costs. He stated the Board could do this without hiring anybody or by doing an RFP using the existing structure. Mr. Emkin informed the Board it was very important to keep in mind the managers only have the authority to invest domestically. He explained if the money were to be deployed in the non-dollar markets, this would require them to sell the U.S. assets before buying the International assets, which would increase transaction costs.

President Romero expressed he would feel more comfortable doing a 60-day search and moving up the international search. Mr. Emkin responded PCA would make every effort to do this within 60 days. Mr. Wiggs agreed with President Romero in following PCA's recommendation and accelerating the international search.

Mr. Mirisola inquired if this required a motion by the Board. Mr. Vazquez responded President Romero could just give a directive. Mr. Emkin indicated he would instruct his staff to work, along with Mr. Vellon and his staff, to make this the highest priority. He added there were no firm dates for the fixed income manager selections and suggested replacing the fixed income effort with the International Equity selection process. It was the consensus to so proceed.

President Romero ruled Item 19 be discussed next.

19. Possible selection of investment management Firm or Firms (from those responding to the Plan's Request for Proposal – Russell 1000 Index).

Mr. Emkin commented on the fact the Board has so far been indecisive in the hiring of the passive managers and inquired if there was anything he could do to help the Board come to a decision and move forward. He stated all the finalists firms, in his opinion, had made good faith efforts on addressing the outreach

program. Mr. Emkin reported State Street's fee was higher than the other two finalists, due to an extra charge for custody, but indicated it was PCA's opinion, both Northern and Merrill Lynch were completely capable of doing the job outlined at a highly competitive fee.

Mr. Wiggs inquired about the data the Board members requested of the firms at the last meeting. Mr. Vellon indicated the responses to the questions raised by the Board members were received. He indicated representatives from Northern Trust and Merrill Lynch were present.

Mr. Mirisola commented Mr. Robert Joseph (Northern Trust) wished to address the Board. President Romero recognized Mr. Joseph.

Mr. Joseph approached the podium stating he wished to clarify the statement Mr. Emkin made regarding custody fees. He reported, on Monday, Northern Trust received a call from PCA inquiring if the firm charged custody fees at the fund level. He informed the Board the firm does not charge custody fees at that level, however State Street does.

Mr. Vellon commented Northern Trust and Merrill Lynch both indicated they are willing to do more negotiation on the fees. President Romero commented he previously discussed State Street being an option, but due to the custody fee charge there was no more flexibility. He inquired if the Board had reviewed the responses to the questions and if more discussion was necessary.

Mr. Wiggs moved splitting the allocation between the two firms Northern Trust and Merrill Lynch.

Mr. Mirisola stated he did not favor splitting the cost and, after reviewing the materials submitted, he felt Merrill Lynch had a better emerging manager program and moved hiring this firm for the full assignment. Ms. Bertrand seconded the motion.

President Romero clarified there were two motions. He added some of the questions asked of the 3 firms came from Ms. Calvache and she has since expressed her comfort with the possibility of splitting the fund between two firms for the sake of compromise. He noted he agreed with Mr. Wiggs and splitting the allocation 50/50, subject to evaluation of the firms on an annual basis, to see which firm is saving the Plan the most money, and based on the outcome, the Board can consider giving the whole passive strategy to one manager.

Ms. Bertrand and Mr. Mirisola withdrew their motion. Mr. Vazquez then seconded the motion made by Mr. Wiggs. Mr. Wiggs inquired if splitting the allocation produced any material cost difference. Mr. Emkin responded the cost difference was nominal in terms of the size of the assets. Mr. Wiggs expressed his appreciation of Mr. Mirisola's willingness to compromise and move forward, adding he preferred a united front from the Board.

Mr. Vellon clarified Merrill Lynch representatives indicated they would meet Northern Trust's fee proposals in order to have a uniform fee. President Romero stated there was a motion on the table made by Mr. Wiggs and seconded by Mr. Vazquez. The motion carried unanimously after the following vote:

Ayes: Romero, Mirisola, Vazquez, Wiggs and Bertrand
Nays: None

Mr. Vellon informed the Board negotiation of the details of the contract would proceed and a draft contract would be submitted for Board consideration.

President Romero stated the Board needed to be concerned about portfolio transition. He suggested listening to the Bank of New York (BONY) representatives to find out where money could be saved and to be more aware of the risk controls. Mr. Vellon clarified this was an agenda item for the Board meeting scheduled for March 25. Mr. Vazquez expressed he would like a recommendation from PCA on options in making transitions.

President Romero inquired if there were more anymore issues regarding PCA in order to excuse Mr. Emkin. Mr. Vazquez responded he had a couple of questions regarding agenda item 18.

President Romero ruled Item 18 be discussed next.

18. Consideration of Retirement Board Policy on Emerging Managers.

Mr. Vazquez indicated he had questions regarding the inclusion policy with the current process the Plan is going through. He also expressed the need for devising a standard policy for inclusion on all future services and contracts required. He inquired where PCA stood in terms of the upcoming interviews, what had been addressed with these firms with regards to inclusion and how the issue would be addressed with the remaining RFPs. Mr. Emkin responded each firm knows this is a priority issue for the DWP's Retirement Board and needs to be addressed in their presentation. He added how these firms choose to address the issue will be unique to each organization. Mr. Emkin stated the RFPs had already been issued on fixed income, but, since the Board has deferred fixed income, the RFP could be amended to more emphatically state what the Board's policy is. He added there is no written policy on how to address inclusion and this has created some challenges. Mr. Emkin reported PCA received calls from firms inquiring what DWP's policy is and his staff cannot appropriately respond with anything more than it is an inclusion policy, because there is no written policy and this did not serve the Board well. He encouraged the Board to consider a written policy to be included in all the RFPs and in all communications.

Mr. Mirisola suggested finding out what the different manager's inclusion concepts were by creating a separate emerging manager policy, consistent with the other city agencies. President Romero expressed he did not agree with Mr. Mirisola. He emphasized the current inclusion policy concept was best, and he could not support having a separate emerging manager policy. President Romero suggested he could

work with Mr. Vazquez and staff in reaching a consensus regarding a policy to present to the Board. Mr. Vazquez suggested PCA draft up a generic policy. Mr. Emkin responded PCA would submit a policy with language other city agencies have used, and suggested discussing, at another time, whether the Board wants the future RFPs to change or not.

President Romero inquired of Mr. Emkin's feelings on staffing levels for the Retirement Plan office with regards to full discretion. Mr. Emkin responded DWP is an institution managing a retirement program, disability, benefits and a \$6 billion investment program. He stated, in terms of a \$6 billion investment organization, which will be growing increasingly complex, the current staffing level is considerably less than many of DWP's peers. He stated the portfolio implemented will become more complex requiring more expertise and time to obtain the objectives the Board has stated in all the planning documents adopted. Mr. Emkin added to implement full discretion and oversee it professionally requires the staff with the background, training and time to do so.

Mr. Wiggs commented, since he has expressed his displeasure in the past, he wanted to publicly congratulate and show his appreciation to the Board members, Mr. Vellon and staff for making the effort in moving everything on a very professional basis.

President Romero excused Mr. Emkin. Mr. Emkin left the meeting.

[The regular order of the agenda resumed]

17. Consideration of July 1, 2003 Annual Cost of Living Adjustment (COLA) increase for eligible retirees, based on the Consumer Price (CPI) Index, pursuant to applicable Retirement Plan provisions (2.8%).

Mr. Vellon explained item 17 pertained to the Cost of Living Adjustment (COLA) for the retirees. He stated staff computed the percentage for 2003 at 2.8%, which had been reviewed and certified by the Department's audit staff. He recommended approval. Ms. Bertrand moved adoption of Resolution 03-68. Seconded by Mr. Mirisola and carried unanimously after the following vote:

Ayes: Romero, Mirisola, Vazquez, Wiggs and Bertrand
Nays: None

18. Consideration of Retirement Board Policy on Emerging Managers.

This item was discussed out of sequence, see page 12.

19. Possible selection of investment management Firm or Firms (from those responding to the Plan's Request for Proposal – Russell 1000 Index).

This item was discussed out of sequence, see page 10.

Regular order of the agenda resumed.

20. Consideration of policy change relative to charging the Plan expenses against the trust (for payment of investment management fees due and payable under the newly adopted asset allocation structure).

Mr. Vellon indicated item 20 was placed on the agenda at the request of Mr. Vazquez.

Mr. Vazquez referred to a provision in the Retirement Plan stating “the Department shall bear the cost of administering the retirement fund and payment thereof shall contribute monthly in advance to said fundfor administrative expenses“. He indicated it also talks about fees for investment advisors and stated, in the past, the Board employed investment advisors at a rather nominal fee of less than \$1 million a year and this expense has been absorbed by the Department, through the payment of administrative expenses. Mr. Vazquez outlined his proposal from the last meeting, on changing this policy due to the use of fully discretionary managers and the significant increase of the fees. He stated it is expected this will be more than offset through the additional returns the fund will receive through the use of full discretionary managers. He referred to the financial constraints of the Water System which may not presently afford the higher fees. He recommended the income of the Retirement Plan be the source for the expenses and fees of the full discretion managers.

President Romero stated he was concerned with the current market situation and the Plan being in the process of transitioning. He noted the Board has yet to see the total effects of the asset/liability relationship and how will these perform. He indicated he would feel more comfortable reviewing the results in a year, before adopting a change as proposed by Mr. Vazquez. Mr. Vazquez responded, with regard to his motion, it would assume, during the transition period, as long as the funds are managed by the current fund managers at the lower fees, this would be absorbed by the Department as part of the budget. He added, as funds are fully transitioned to fully discretionary managers, the Department would not fund this.

Attorney Weisz-Jones commented, if the motion is passed, the Plan would have to be amended and the City Attorney’s office would work with Mr. Vellon in going through the formal amendment process. Mr. Mirisola inquired if this was also a “meet and confer” item. Attorney Weisz-Jones responded “meet and confer” only deals with employee benefits and change of working conditions. A discussion ensued regarding the Plan language with regards to the term investment “advisor” and investment “manager”, and it was the consensus an amendment would be necessary, if the motion passed. Mr. Vazquez then moved adoption of Resolution 03-72. Seconded by Ms. Bertrand and carried by majority after the following vote:

Ayes: Mirisola, Vazquez, Wiggs and Bertrand
Nays: Romero

21. Consideration of late request for purchase of Other Governmental Service (OGS) military service filed by Mr. James Woodard (currently on Permanent-total Disability).

This item was discussed out of sequence, see page 5 of these minutes.

22. Consideration of annual Retirement Plan Budget - Administrative Budget and Annual Personnel Resolution (APR) for fiscal year 2003-2004.

Mr. Vellon introduced item 22 as the budget prepared by Ms. Bhatia and Ms. Shimamoto, who were present to answer any further questions.

Ms. Bertrand inquired what classification would be overseeing the new investment structure. Ms. Bhatia responded there were currently one investment officer, a chief accounting employee, and two senior utility accountants to be trained in taking over the new functions. Ms. Bertrand inquired who would be conducting the training. Ms. Bhatia responded the new employees would be sent to seminars and there would also be in-house, hands-on training.

Mr. Vazquez indicated the additional written justification/documentation was not received until yesterday and there was no time to review it. He stated he believed the Plan needs to be adequately staffed, and based on Mr. Emkin's statements, the Retirement Plan office does not have the necessary staffing level in terms of bodies and experience to go to full discretion management, and he was in support of a responsible increase in staff. Mr. Mirisola agreed with Mr. Vazquez in going forward with the staff request, adding, if changes were needed in the future these could be made.

Mr. Vazquez inquired about the IT staffing request, in terms of the plans for implementing new systems and if this should be supported by ITS or through a fully dedicated staff within the Retirement Plan office. He noted, currently, there were four full-time employees in IT, and stated he felt this was a better arrangement rather than building up an in-house IT staff.

Ms. Shimamoto responded the budget included four system programmers, one administrative, and one clerical employee. She explained the current staff used from IT is mostly utilized to keep the old systems going, and in addition to this, they are trying to do an upgrade on the pension payroll system. Ms. Shimamoto stated the Retirement Plan office would interview some of the current IT staff members, as additional positions, but the main focus on utilizing them is looking forward to a new computerization effort.

Mr. Mirisola commented on the modernization of the Los Angeles City's retirement plan software and suggested getting three or four people from IT to help move forward on the new computerization and then reducing the amount of positions after completion. Ms. Bhatia indicated staff had met with LACERS, representatives, looked at their system and the level of staff to support it, and based on this, came up with a preliminary estimate of the staff needed for computerization. She emphasized the computerization was long overdue, since, currently, everything is done manually with disjointed systems that do not interact with each other, creating a lot of duplication of effort to come up with retirement estimates.

President Romero stated after the selection of the passive managers it was important to start building up the staff, training and utilizing them, especially since interviews are scheduled next week for the large capitalization growth managers. Mr. Wiggs added he was persuaded there was no question of the need for additional staff, but he has never approved any section 100% of the staffing they have requested. He stated his problem with bringing in staff, and then reducing the amount, is it is very difficult to get them out of the system once they are in, so it would be more prudent to err on the short side and then build up to what is needed.

After more discussion, Mr. Vazquez moved approval of Resolution 03-23 for the staffing request, with the understanding, before the six people are hired for the computerization, staff comes back before the Retirement Board with a specific plan as to what they are going to do to install the systems and what the implementation alternatives are. Mr. Vazquez's motion was seconded by Ms. Bertrand, but it was subsequently replaced by an amended motion.

Mr. Vellon expressed Mr. Wiggs comment of positions being created for temporary purposes and then staying forever was understandable, but the Retirement Plan office has already given up five positions back to the Department. He added, in retrospect, this was a mistake because now staff would only be asking for six additional employees. Mr. Vellon stated, in response to Mr. Vazquez's comment, the Retirement Plan office is in a crisis situation, whereby there is no computerization and staff is relying solely on manual work by personnel who have been there for 20 years. He explained if the Board grants the Retirement Plan office the additional positions, and does not let them hire those positions, this would not alleviate the crisis. He added it was just a matter of time before something huge happens, due to the lack of adequate computerization. The discussion continued among the Board members, and as a result, Mr. Vazquez amended his motion on Resolution 03-82 to also allow the requested IT staff be hired as soon as possible.

Mr. Vellon indicated staff would still report to the Board on a regular basis, but the office is approaching a crisis situation and needed personnel to start programming immediately. Mr. Mirisola seconded Mr. Vazquez's amended motion and it carried unanimously after the following vote:

Ayes: Mirisola, Vazquez, Wiggs and Bertrand

Nays: None

Mr. Vazquez inquired if the Board had just approved the preliminary budget and APR on page 22.3 of the agenda. Ms. Bhatia responded the resolution 03-82 approves both the budget and the APR as presented. Mr. Vazquez stated with regard to the administrative expenses, he moved to strike line item 4402000 (Investment Counsel fee) on page 22.3 of the agenda package. Seconded by Mr. Mirisola and carried unanimously after the following vote:

Ayes: Mirisola, Vazquez, Wiggs, Romero and Bertrand

Nays: None

23. Consideration of Pre-Retirement Training Program for DWP employee's – Presentation by Ms. Rose Garcia.

Mr. Vellon reported item 23 had previously been presented to the Board and refers essentially to a training program for active employees relative to pre-retirement planning.

President Romero recognized Ms. Rose Garcia (Corporate Training and Development Manager). He thanked her on behalf of the Board, and the members, for all of her hard work.

Ms. Garcia approached the table and clarified she had done the original outline but Ms. Sherry Morimoto had put a lot of work into the project and deserves formal credit. Ms. Garcia then presented a background on what was done to outline the training program. She indicated both the LACERS Retirement program and the Department's Retirement (in the mid 90's) were studied. She added staff also talked with some of the providers who had given presentations in the previous programs and, from this, the outline in the agenda package was developed. Ms. Garcia explained the program consisted of some of the pre-retirement issues that should be considered, such as life change issues and financial and estate planning. She indicated what was not clearly outlined was some of the training programs would be offered during regular City time, in the sense these are directly related to the employee's ability to retire. She also stated there would be modules, after working hours, including estate planning, social security and Medicare. She added, those subject matters not affecting the majority of the employees, would be offered in one-hour modules.

Ms. Garcia indicated this was how the City of L.A. used to have theirs structured, and having participated in both programs, she feels the modular seems to work better, because employees received the information they needed versus everything. She then reviewed other subject matters the training program covered. Ms Garcia informed the Board the initial Plan is for the programs to be for members who are within five years of retirement and subsequently it would be offered to the Department as a whole. She suggested the Board consider implementing a method wherein a disc is used and an employee could plug in their numbers and the calculations were automated and specific to the Plan, such as that in the old LA City plan. Ms. Garcia expressed the City found this particular tool worked better for those who were not financially savvy and they truly benefited from getting a better picture of whether or not they could afford to retire or should continue working.

President Romero indicated this was something the Department was looking at, possibly during the computerization, so any employee could go online and do their calculations. Mr. Vellon commented this could be a perfect assignment for the new IT Plan staff just approved by this Board.

Ms. Garcia inquired if there were any questions. President Romero responded the outline was excellent and, as the program develops, other things can be added. Ms. Garcia clarified there would be issues that would come up once negotiations have been

completed and the outline would be amended accordingly. She added, in hindsight, she would also like to tap into the retirees as a resource.

Mr. Mirisola commented the Retirement Plan section has needed the program for a long time and he appreciated Ms. Garcia bringing it as far as she had. Mr. Vazquez then moved adoption of Resolution 03-83. Seconded by Mr. Mirisola and carried unanimously after the following vote:

Ayes: Mirisola, Vazquez, Wiggs, Romero and Bertrand
Nays: None

Mr. Wiggs left the meeting at 11:40 a.m.

24. Consideration of amendment to the Water and Power Employees' Retirement Plan to add a new Section III (a) (10) to provide payment of an attendance fee for the appointed retired member of the Board of Administration.

Mr. Vellon presented item 24 referring to a Plan amendment to provide payment of a nominal attendance fee for the retired member of the Board, as discussed at the last meeting. He stated the suggestion was to put it on the agenda for discussion, so the Plan is amended accordingly. He noted the proposed language, distributed with the agenda packet, had been prepared by Attorney Weisz-Jones.

Attorney Weisz-Jones clarified the language on page 24.5 of the agenda package stating "for the appointed retired member of the Board" was perfect and could be moved forward. Mr. Vazquez noted the resolution on page 24.2 addresses the fee being available to every member, suggesting all members could request the stipend, if they so choose. He felt this is not appropriate and recommended the adoption of Resolution 02-43 with the change of retired Board member. Mr. Mirisola suggested changing Resolution 02-43 reflecting the stipend be only for "Eligible retired members" on the Board.

Mr. Vellon clarified this was the same resolution previously prepared and agreed with Mr. Vazquez the language must be modified to reflect the stipend is limited to the retiree representative. Mr. Vazquez then moved adoption of Resolution 02-43 with the amendments discussed. Seconded by Mr. Mirisola and carried unanimously after the following vote:

Ayes: Mirisola, Romero, Vazquez, Wiggs and Bertrand
Nays: None

25. Consideration of Board of Commissioners' resolutions adopting various Retirement Plan Amendments:

- a) Board of Commissioners' Resolution number 003 180 increasing the family death benefit allowance and the supplemental family death benefit allowance effective June 19, 2001.**
- b) Board of Commissioners' Resolution number 003 186 applying Plan changes to various DWP bargaining units as meet and confer**

processes are completed through applicable “Most Favored nations” provisions.

- c) Board of Commissioners’ Resolution number 003 187 implementing Retirement Plan enhancements for the Management Employees Association MEA and Unrepresented Employees in Bargaining Unit V.**

Mr. Vellon stated item 25 was basically informational and explained it refers to the three amendments adopted by the Retirement Board as approved by the Board of Commissioners. He stated most of the changes authorized by the new language had been calculated for payment April 1, 2003, including the retroactive recalculations of the MEA pensions. He noted this was submitted for the formality of Board adoption of the language, but no action was needed.

President Romero commented he had hoped Commissioner Cho would be present for this item, since she made the motion at the commission level. He stated he wanted to go on record in thanking her for moving this forward, because a lot of the minor children of the Plan members will benefit from it.

Mr. Vellon noted the staff of the Retirement office had also done a tremendous job in making sure the minor children received their benefits promptly, after today’s meeting. President Romero requested Mr. Vellon thank the staff on behalf of the Board. Ms. Shimamoto commented the payroll adjustment resulted in a pay-out of \$933,000 for the month of March, plus the retro payments.

Attorney Weisz-Jones advised the Board needed to formally move adoption of the amendments as required under the Plan, as a technical formality. Mr. Mirisola moved adoption of Resolution 3-180, 3-186 and 3-187. Seconded by Ms. Bertrand and carried unanimously after the following vote:

Ayes: Mirisola, Vazquez, Wiggs, Romero and Bertrand

Nays: None

- 26. Consideration of Retirement Board contracts expiring within the next 6 months:**
- a) TCW Asset Management Company - Domestic Fixed Income Acct and Domestic Equity Account (expires June 30, 2003).**
 - b) Standish Mellon Asset Management – Domestic Fixed Income Account (expires June 30, 2003).**
 - c) The Boston Company – Domestic Equity Account (expires June 30, 2003).**

Mr. Vellon presented item 26 is essentially informational as the expiring contracts are normally brought before the Board in case the Board would like to pursue RFPs. He indicated the three contracts reported as expiring June 30, 2003 are for the current investment managers. He pointed out, as a result of the Board’s action today, switching the order of events, it was not clear whether or not there is a need to request the three managers agree to an extension of their contracts for three or four months. Mr. Vellon

suggested he can discuss this option with the three investment mangers and report back at the next meeting. It was the consensus to so proceed.

27. Retirement Plan Manager's comments

a) DWP Plan Newsletter for retirees (March 1, 2003 Edition).

Mr. Vellon reported a draft of the newsletter for retirees had been handed out and it included the nomination process for the retiree representative, as requested by the Board of Commissioners.

b) DWP Plan Newsletter for active employees (1st quarter 2003).

Mr. Vellon reported the Board received the final draft of the active member newsletter, which included an explanation of the Plan changes approved by the Board today.

c) General items.

Implementation of benefits increases (Family and Supplemental death)/MEA retro pension increases.

Mr. Vellon indicated staff had already started implementing the family and supplemental death (retro) payments, as well as the MEA pension increases.

Transcript of February 7, 2003 Board minutes.

Mr. Vellon informed the Board Ms. Tesseneer had the transcript of the February 7 Special meeting and it was available for those members who requested a copy.

Portfolio Transition

Mr. Vellon commented the Board had already discussed the portfolio transition management, which President Romero alluded to, and it would be included as an Agenda item for March 25th meeting and more information would be provided at that time.

Protest of Legal Services RFP rejected administratively

Mr. Vellon indicated, as a matter of information, a protest was made by one of the law firms not selected in regards to the recent Legal Services RFP. He stated the protest was reviewed and rejected administratively, and a copy of the rejection letter was sent to Attorney Weisz-Jones.

Large Growth Managers interviews scheduled for March 25, 2003

Mr. Vellon reminded Board members the large growth manager interviews were scheduled for March 25th and 26th.

Status of Fiduciary Counsel Contract

President Romero inquired where the Board stood on the contract for the fiduciary counsel. Attorney Weisz-Jones responded the City Attorney's office was still working on it and there were no problems with it.

The Board meeting was adjourned at 11:50 a.m.

JAVIER ROMERO
President

DUAMEL VELLON
Secretary

SILVIA TESSENEER
Recording Secretary