

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

MINUTES – March 16, 2005

Present:

Javier Romero	President
Lilly Calvache	Vice-President
Michael Moore	Retiree Member
Eugene Canzano	Board Member

Absent:

Ronald Deaton	General Manager
Ron Vazquez	Chief Financial Officer
Gerard McCallum II	Commissioner

Others Present:

Sangeeta Bhatia	Assistant Retirement Plan Manager
Irene Colon	Recording Secretary
Neil Rue	Pension Consulting Alliance
Sarah Bernstein	Pension Consulting Alliance
Michael Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 10:00 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

PUBLIC COMMENTS

Ms. Bhatia stated there were no public comments.

President Romero, on behalf of the Board, welcomed Mr. Eugene Canzano to the Retirement Board. He also expressed his gratitude to the Retirement Office staff for all of their hard work and their contribution in the Department receiving an award for "Investment Shift of the Year" at the 4th Annual Money Management Letter Public Pension Funds Award.

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

President Romero reported items 1 and 2 were submitted for consent approval as follows:

- 1. Approval of Board Minutes for January 19, 2006 (Regular Board Meeting)**
- 2. Termination from Monthly Rolls as of March 2005:**

**Retirement Resolution for March 2005
Resolution Termination Nanette Bond from the March Survivorship Roll as a
Result of Her Death**

Mr. Moore moved adoption of the above items 1 and 2 on consent. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, and Moore

Nays: None

- 3. Report of Payment Authorizations as of February 2005**
- 4. Notice of Deaths for February 2005**
- 5. Short Term Investments as of February 28, 2005**
- 6. Market Value of the Retirement, Death & Disability Fund as of January 31, 2005**
- 7. Disclosure Statement and Acknowledgement – Earnest Partners/Connors and Company**

President Romero reported items 3 through 7 were submitted as having been received and filed.

Mr. Moore referred to a report on page 6.1 of the agenda packet reflecting the status of the various investments and managers. He inquired if Loomis Sayles was funded and if the Plan was now fully funded. Ms. Bhatia responded in the affirmative. Mr. Moore inquired where things stood with respect to the reports from Mellon Bank giving monthly detail on the status of various managers and their investments. Ms. Bhatia stated Mellon Bank was just starting to submit various reports and next month staff would be in a position to provide other information. She noted at the last Board meeting it was mentioned that Board members wished to be involved in the selection of reports they are to receive. Therefore, a meeting should be scheduled to decide which reports should be submitted to the Board for their review. President Romero commented this was a service that Bank of New York provided and he had discussed this with Mellon Bank. He stated Mellon indicated they would set the Board member's home computers up to gain access to reports using a pin code.

Mr. Alex Leonard of Mellon Bank approached the podium.

President Romero recognized Mr. Leonard.

Mr. Leonard indicated there was a packet of reports that Mellon Bank does have available. He reported the bank just completed the Retirement Office staff's training on both the accounting side and the performance side. Mr. Leonard stated, in addition, Mellon would like to conduct a training program for the Retirement Board giving every member individual access to the reports. He added, hopefully, this could be scheduled over the next month.

Mr. Moore inquired what role Connors and Company played in relation to Earnest Partners as their market representative, and if the firm markets to PCA as well. He

stated it appears that this firm's role is to search for various opportunities, primarily for small funds. Mr. Rue responded it had been awhile since Earnest Partners was in the marketing function with DWP. He explained how Connors and Company was a placement agent and was marketing Earnest Partners. He stated that during PCA's screening process, they fielded a couple of calls from Connors who sent them some preliminary information on Earnest Partners regarding their portfolio.

Mr. Canzano inquired if Connors and Company's fee was typical. Mr. Rue responded in the affirmative.

Mr. Moore moved the above items 3 through 7 be received and filed. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, and Moore

Nays: None

8. PCA's report on the transition of Northern Trust assets to Merrill Lynch (Passive Index Account)

Mr. Rue reported the transition of Northern Trust assets to Merrill Lynch went very smoothly. He reminded the Board of previous contractual issues with Northern Trust on the Passive side with two Passive managers managing the exact same mandate (Russell 1000 Index Fund). Mr. Rue stated a decision was made to move the money to Merrill Lynch with which PCA agreed. He explained it was an "in-kind" transition; therefore, the securities moved from one account to another and in turn the Plan received shares in a commingled fund with virtually no impact on performance.

9. Presentation by PCA of the Performance Report for the Quarter ended December 31, 2004.

Mr. Rue began reporting portfolio highlights, stating the portfolio was up to approximately \$300 million versus where it was December 31, 2003. He stated, in terms of the equity stable fixed income/cash split, there is 65% in equities and 35% in bonds and cash. Mr. Rue pointed out a few of the deviations were due to the adoption of asset classes, and the Board is still learning about two funds (alternative and real estate) that are yet to be funded. He explained since there is an underweight in those asset classes, there has to be overweight in another asset class. Consequently, the logic is to overweight equities.

Mr. Rue commented that for the long term the Board should ponder how they view real estate, as either an income producer or as an equity type asset class. He explained that real estate is a sort of a hybrid to the extent it is part of the portfolio to produce income. However, for the long term, the Board may want to overweight fixed income a little bit, particularly if the markets are going to be choppy.

Mr. Rue reported that for the last year all of the equity markets were up double digits for

a second year in a row. He stated the EAFE and EMF index produced the best results and the public real estate market produced a positive performance.

Mr. Rue reported the Water and Power Employees' Retirement Plan (WPERP) portfolio was up 9%, while, the median pension fund was about 11.6%. He further reported the Plan's actual return was 9.0%, while the policy return was 10.4%. Mr. Rue began explaining the issues, stating the Board should not spend a lot of time focusing on and trying to keep up with how their peers are doing because the WPERP is currently going through a significant amount of change. Mr. Moore expressed that he did not believe the Board should lose sight of how their peers are doing because ultimately the Board's objective is to be one of the best performers. He stated it is understandable why the WPERP is not performing against the universe, given the fact all the mandates were just fully funded. However, in going forward, he expects that after a year these numbers would improve substantially. Mr. Rue responded that assuming the WPERP's policy is equivalent to that of the Department's peers then it would be up to the investment managers to produce those results.

Mr. Rue explained the reason the policy return is 10.4, which is below the 11.6% median return, is that the WPERP's peers tend to have a decent amount of exposure to real estate and some modest exposure to alternative investments. He added that both of those asset classes did very well in 2004, which explains approximately 50 basis points of the portfolio's underperformance. Mr. Rue explained that the remaining underperformance is a result of the WPERP's peers having about 5% more allocated to Domestic Equity. He stated that just the simple shift of the Retirement Plan's portfolio having 5% more in bonds/cash instead of in equities explains another 50% of underperformance.

Mr. Rue began explaining the reasons behind the underperformance in policy by 140 basis points. He stated 20 to 30 basis points was due to transition activity. He added that another major factor was the fact the Department portfolio did not have a policy weight in International Equity, which is up 20%.

Mr. Rue referred to the manager performance summary and comparison as of December 31, 2004, pointing out that on the Large Cap Passive side, only Merrill Lynch would be going forward. However, for the year 2004 the Passive portfolios did very well and added slight value. He reported T. Rowe Price is underperforming at this point, while MFS has produced very good results. Mr. Rue stated, on the growth side, both Fred Alger and Intech have outperformed since inception and will have one year's worth of performance next quarter. He stated the value side was just funded so it is too early to report. Mr. Rue reported that on the developed side, Invesco has been 250 basis points under since inception, and it is too early to report on Boston or Fidelity. He further reported that the Fixed Income portfolio was adding modest value across the Board.

10. Recommendations by PCA for the monitoring of newly-hired Investment Managers

Ms. Bernstein indicated PCA had put together two options for the Board's review regarding the monitoring of the WPERP investment managers. She stated PCA typically recommends the Retirement Office staff do onsite visits with each of the public securities managers on a regular basis, or at least annually. She also suggested a review of each manager at least every three years. Ms. Bernstein stated the Board may want to set up panels for dialogue between all of the domestic equity managers, or just have each individual manager present their results. However, this was a Board decision in what they feel most comfortable with and what they feel they might get the most value out of as far as timing and format.

Ms. Bernstein reported that over the next few months PCA would be working with the Board in developing probationary criteria for managers the Board wants to place on watch for underperformance or other issues. Mr. Moore expressed he was uncomfortable with looking at each major asset class only once every three years. However, he was in favor of having the various asset managers interacting with each other combined with individual manager presentations on an annual basis. He also suggested having an asset class present a report at a Special Board meeting each quarter. President Romero agreed with Mr. Moore's suggestion. Mr. Moore inquired, with regards to placing managers on probation, how does this typically tie into the periodical reviews. He further inquired if this is done on a performance basis or on a more regular basis as part of an overall performance review. Ms. Bernstein stated the Board could set up the probation for however long of a time period they desired. Mr. Rue stated PCA would need a schedule for the Special Board meetings. Mr. Moore clarified the panel approach would be scheduled annually for one asset class each year, but the quarterly meetings would be one asset class at a time for the Board to hear from a series of individual managers and to ask questions. Ms. Calvache inquired what the standard time was in keeping a manager on probation. Mr. Rue responded the time period is usually 9 to 15 months and then a decision needs to be made whether to keep the manager or let them go.

11. List of Educational Conferences and Courses provided by PCA

President Romero indicated item 11 was for Board informational purposes only. Mr. Moore commented that the list of conferences/courses for WPERP trustees still seemed rather thin on specific audit focus. He noted that PCA mentioned Stanford might have a component that includes an audit function. Ms. Bernstein stated she summarized some of the information focusing on the questions the Audit Committee raised and found that a number of the large conferences include a panel on audit committee issues. She stated if she received any responses from any of the institutions she would compile this information and distribute it to the Audit Committee.

12. List of suggested items for the WPERP to accomplish in the year 2005 prepared by PCA

Ms. Bernstein explained she put together a list of major items that arose and were put on hold in the past year until after the mandates were funded. She briefly commented

on each item. President Romero suggested adding computerization of the Retirement Office to the list of items to be addressed in 2005. Mr. Moore expressed his interest in reviewing the organization and practices from a “best practices” standpoint, in terms of the administrative, investments, and systems. He also stated he wanted to make sure the Board received good reports on a regular basis regarding the performance of the managers. Ms. Bernstein commented that Water & Power is already conducting an audit of the Retirement Plan regarding its organizational practices.

13. Resolution adopting the changes in the amount funded to the Boston Company for the emerging markets mandate.

President Romero introduced Item 13 as a resolution adopting the changes in the funding amount from the Boston Company for the Emerging Markets mandate in order to obtain a fee reduction.

Mr. Moore moved the adoption of Resolution 05-71. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, and Moore
Nays: None

14. Resolution authorizing the adoption of the Retirement Office Annual Budget for the year 2005-2006

President Romero introduced item 14 as a resolution authorizing the adoption of the Retirement Office’s Annual Budget for fiscal year 2005/2006. Ms. Calvache noted the budget did not reflect how many employees are in the Retirement Office and lists three Principal Clerk Utility positions that do not exist. Ms. Bhatia responded this was the requested format for the Board package that was sent to City Council. She explained the budgeted column was the one which reflected the numbers of positions with which actual dollars were associated. She further explained that the substitute numbers basically provided the flexibility so that the Retirement Office could appoint people in those stated classifications. Ms. Bhatia gave the example of the substitute positions under the Principal Clerk Utility classification, which provided the flexibility to appoint someone in that classification by freezing another position. Ms. Bhatia clarified that the 56 actual positions for fiscal years 2005 /2006 is reflected at the bottom of the page. She stated this indicates an increase of 3 positions over what was approved for the 2004/ 2005 budget for the Investments, and Administration Section. Ms. Bhatia stated that a change in the organization structure of the Investments Section was being requested to cope better with the new responsibilities from the change in the investment strategy. She stated one position is for a Chief Investment Officer and the other two positions are for Management Analysts, which is associated with the increased demand for seminars, a huge waiting list, and one person not being sufficient. She further stated this would also allow the Retirement Office the flexibility to handle the existing personnel shortages and to cross train. Ms. Bhatia requested an additional Investment Officer in connection with the proposed new organization structure of the Investments Section; a section that is working well at the other two City pension plans.

Ms. Calvache inquired about the need for clerical employees. Ms. Bhatia responded there were two Senior Clerk Typists and a Clerk Typist position, which the office plans on filling. Ms. Calvache indicated the reason she asks is because she has been getting a lot of inquiries from members regarding the extensive amount of time it takes to get a retirement estimate. She stated these concerned employees are not planning to retire in the next couple of months and staff concentrates on those members who will be retiring soon. However, employees who are planning for their future do not receive their retirement estimate for months. Ms. Calvache inquired if it was reasonable for the Retirement Office staff to respond to an email with "I will try to get around to your estimate in a couple of months", and was this due to the office being short staffed. Ms. Bhatia responded it was not reasonable to have to wait months for an estimate. She stated there has been a policy in place, which requires that a detailed, complete, and accurate estimate be provided if the employee wanted to retire within a few months. She explained this detailed estimate required obtaining information on disability purchased time etc., calculating the distribution under various options, any penalties associated with the distribution etc. President Romero inquired if it was conceivable that with a new system an employee could plug in a few data fields and get an estimate on their own. Ms. Bhatia responded that would be an ideal system for an employee to be able to go to a website and put in their own information and receive an estimate. She stated there is a method of providing a quick estimate currently, but unfortunately it does not take into account if the employee has had a leave of absence, disability time, or OGS. Ms. Calvache inquired what was the average time it takes for an employee to receive a quick estimate. Ms. Bhatia responded within a day. However, this was an excel spreadsheet and consisted of inputting the different variables, and does not include disability, OGS and leave of absence time. President Romero inquired how the staffing situation was within that section of the Retirement Office. Ms. Bhatia responded the Retirement Section has been short staffed due to employee turnover, no supervisor and attendance issues. She added the system to produce these estimates is manual.

Mr. Canzano inquired if there was a system in place for when an employee calls in and makes a request that tracks the actual time of the request to the delivery of the estimate. Ms. Bhatia responded there was not a computer system that does this but staff manually makes a notation in terms of the calls received.

Ms. Christina Munoz (Management Assistant) of the Retirement Office approached the podium.

President Romero recognized Ms. Munoz.

Ms. Munoz reported that currently the Retirement Office has a Senior Clerk Typist vacancy in the Disability Section that will be filled within the next week. She stated there was also a vacant Senior Clerk Typist position that was allocated for the computerization project. Ms. Munoz stated, other than that, the clerical positions are fully staffed and most of the vacancies are due to poor attendance. Mr. Moore expressed he was puzzled, because when looking at the salaries on Page 14.4 of the agenda packet, the budget estimate for 2004/2005 is stated; and when looking at the proposed budget, most of those are increasing 50% or better for what will be expended

this year. He stated, that being the case, he assumes there is significant understaffing if the personnel resolution is only requesting an additional 3 positions. Ms. Munoz responded most of the positions that we have vacant right now are higher-level positions, such as Assistant Retirement Plan Manager. Ms. Bhatia explained that the 2004/2005 budget column reflected actual costs through December or January 2004, which were annualized through June 2005. Mr. Moore inquired, of the 56 employees budgeted as regular positions, how many of those are currently filled. Ms. Munoz responded she would provide the Board with a more accurate number. Ms. Bhatia reported there are about seven vacancies consisting of the position of the two Assistant Plan Managers, the Utility Administration, two Management Analyst and the Systems positions. Ms. Calvache inquired why it has taken so long to fill the Utility Administrator position. Ms. Bhatia responded that the Board approved organizational chart indicated this position would be frozen and there would be another Assistant Retirement Plan Manager or Chief Investment Officer position, but now we are requesting a Chief Investment Officer, which will free the Utility Administration position.

President Romero inquired, assuming the Retirement Office takes on the challenges of a new computer program, does the budget include a Clerk Typist to input the information. Ms. Bhatia responded the original budget approved for the computerization project has not been changed and consists of one Clerk Typist, a Management Analyst from the staff, two Programmer Analysts, and two Senior Systems Analysts. She added that the previous plan also indicated that staff members currently working in the Retirement Section would have to be involved due to the significant knowledge and background. President Romero expressed there would be an extraordinary amount of need for staff to transfer the data from the files to the computer. Ms. Bhatia agreed with President Romero adding that hopefully the Retirement Office will soon be fully staffed. She added, depending on the needs of the office throughout the year, staff may come before the Board requesting the necessary positions.

Mr. Moore referred to page 14.4 of the agenda packet, drawing attention to the items listed as "portfolio evaluation services", "office equipment and software", and "other professional services". He requested an explanation of what those items and services consisted of. Ms. Bhatia explained that the "portfolio evaluation services" is for the services proved by PCA based on the initial quote of their contract. She stated, with regards to the "office equipment and software", \$200,000 is for ergonomic office remodeling and additional funds for the replacement of software and costs in connection with printing checks. She stated the cost under "other professional services" consisted of costs for the computerization of the Retirement Office and the amount was based on an estimate obtained from LACERS approximately two years ago. She stated the remaining amount under that item was for producing the annual employees benefit booklets. Ms. Bhatia responded she kept it in the budget because it was a pending project and because a decision had not been made as to how to proceed with the computerization. She explained that the information in the budget for the major items that were pending had not been changed and was based on prior approval of these pending projects by the Retirement Board. Mr. Canzano inquired if the budget had been approved and the money not spent yet. Ms. Bhatia responded in the affirmative.

Ms. Calvache inquired if the Retirement Office had an in-house consultant and if there

was money put aside for this. Ms Bhatia responded that Tom Harrington was the consultant for the Retirement Office and his contract was through the General Manager's office.

Mr. Moore commented there must be more under the portfolio evaluation services besides what is required to cover PCA. Ms. Bernstein clarified \$712,000 was PCA's entire bundled fee and includes the two new areas of alternatives and real estate, in addition to the general investment consulting.

Mr. Moore inquired if the Board acts on approving this budget would they get a chance to review it again. Ms. Bhatia responded that the approval would be final approval. She explained the Board would also be approving the personnel resolution, and that Resolution 05-72 actually approves the dollars in the budget as well as the Annual Personnel Resolution.

Mr. Moore stated he would support Resolution 05-72, but was frustrated with the fact he was not given the opportunity to review some of the issues that go into the making of the budget. He expressed that clearly there is a great need for support in terms of information systems, but he would like to get a better sense in terms of an overall plan. Mr. Moore stated, in looking at the budget in the format it is presented, it is really not that educational to the Board because there are just summary numbers. He recommended, in the future, the Board should have the opportunity to review and have input on the final documents in advance as far as some of the issues that drive the budget. Ms. Bhatia acknowledged Mr. Moore's comments and explained DWP's Budget Director as well as the Chief Administrative Officer did review the budget.

Mr. Moore moved approval of Resolution 05-72. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, and Moore

Nays: None

15. Authority to Purchase Commercial Paper from the List of Approved Issuers

Mr. Moore moved approval of Resolution 05-73. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, and Moore

Nays: None

16. Retirement Plan Manager's Comments

a) DWP Plan Newsletter for Retirees (March 1, 2005, Edition).

Ms. Bhatia reported the Board had already received a copy of the March 1, 2005 Newsletter for DWP retirees.

b) Update on Retirement Office systems

Ms. Bhatia noted a memo on page 16b of the agenda packet regarding the upgrade of the Retirement Office Systems, stating the objective is to inform the Board members about the work being done by ITS. She reported IT has been working with the upgrade of the system, off and on, for approximately two years. However, lately it has picked up momentum. Ms Bhatia stated the first phase of the upgrade deals with the retiree payroll system, referred to as RAP II. She indicated the later phases would include active member records, but at this time the focus is on the payroll system. She informed the Board that ITS is prepared to give a demonstration of RAP II and this could be arranged for the next Board meeting in April.

Ms. Bhatia indicated she contacted LACERS and obtained the name of the consultant that implemented the Pension Gold system for LACERS and that person is also prepared to give a demo to the Board. She stated staff from the Retirement Office, as well as ITS, went to LACERS to look at their system and this will all be covered in the demo. Ms. Bhatia informed the Board that staff was looking for direction from them in terms of how to proceed and whether or not ITS should continue their work. President Romero stated that a couple of years ago the Board discussed RAP II: and it was a program that the Department was going into but for some reason it did not go forward. He stated the Board discussed looking at other potential software that will create efficiency and provide better customer service within the Retirement Office. He added the system should allow members to access the program through PIN numbers in order to do their own estimates. President Romero stated the Board initially decided to put everything on hold due to the transition. However, it is now his understanding that ITS has done an extraordinary amount of work under the perception that this was something the Board wanted to move forward on. He expressed his concern that there was a miscommunication, and ITS probably should not have been given direction to continue doing work that may not have been necessary. He then inquired how this happened. Ms. Bhatia responded when she and President Romero had this conversation and he expressed his surprise that there was an ongoing effort, she was also surprised that this had not already been addressed with the Retirement Board. She stated it was her recollection that two years ago a Systems Analyst was hired in the Retirement Office for approximately three months. However, the employee's work did not meet the expectations of the Retirement Plan Manager and the employee was moved back to ITS. Ms. Bhatia stated she was not aware that work was still continuing on the part of ITS or aware of any communication that went on between the Plan Manager at the time and the Retirement Board members because she was Assistant Plan Manager and was focusing on the investment side of the office due to all of the transitions that were taking place. She reiterated she was not aware of how or when the direction was given and where the communication failed. Ms. Bhatia indicated that staff has been meeting with ITS and providing information for their programming logic, but after her discussions with President Romero, she gave direction that the meetings and work stop for now until formal authority and direction is given as to how to proceed. President Romero expressed his concern was that the previous Plan Manager left, but there have been several meetings with ITS since then that the Retirement Board has not been aware of. He stated there was an effort of a lot of time from ITS in trying to satisfy Retirement's

needs when the Board did not commit and say this is what they wanted. President Romero requested an ongoing update as to what is being done. He expressed that such a significant issue should be placed under the Manager's Comments of the Board Agenda to be discussed. President Romero suggested looking at the whole picture and having a presentation by ITS in order for the Board to see what they have to offer or whether to look at an outside vendor like Pension Gold. Ms. Bhatia agreed with President Romero, stating staff would comply with his requests in going forward. She added that the weekly meetings were more in connection with implementing the half time benefits as well as the 1099Rs.

Ms. Cecilia Weldon (Assistant General Manager & Chief Information Officer) of ITS approached the podium.

President Romero recognized Ms. Weldon.

Ms. Weldon confirmed that ITS spent a lot of time developing RAP II, and per the timelines created by staff in early 2003, a steering committee was formed. She stated the Assistant Plan Manager, at that time, a couple of members from the Retirement Office and ITS met and discussed RAP II. Ms. Weldon explained it was only recently she become aware that there is a disconnect between what the Retirement Board's expectations were and what ITS was actually doing. She expressed ITS is prepared to do whatever is necessary, and has been looking to the Retirement Office for direction. However, it was ITS's understanding that the Retirement Board was aware of the activities taking place and were fully supportive of bringing in an in-house customized RAP II. Ms. Weldon stated, as far as Pension Gold is concerned, it was only six weeks ago that the firm came up as another option. Ms. Weldon indicated she conveyed to Ms. Bhatia that she felt very strongly this was a business decision as far as what needs to be done and will be driven by the Retirement Board. She stated it was not really so much a technology issue, but the functionality and requirements of the Retirement Office. Therefore she prefers the Retirement Office provide the demo and ITS can support and help share in that presentation. Mr. Moore inquired if Phase 1 of RAP II was far along. Ms. Weldon responded in the affirmative. Mr. Moore inquired if it would be finished by the latter part of the year. Ms. Weldon responded in the affirmative. Mr. Moore inquired whether or not Pension Gold is relevant or not with regards to phase 2 of RAP II or subsequent phases. Ms. Weldon responded when Pension Gold first came up six weeks ago it came up in the context of, "you know we really ought to look at commercial "off the shelf products" that are out there. She explained with "off the shelf products" these are programs you just purchase and plug in as opposed to custom building a system. Ms. Weldon reiterated that a decision has to be made and Pension Gold needs to be looked at, along with the new RAP II. She stated the real question is what are the requirements, what are the business functionalities, the technical requirements, and which one better meets the Retirement Office needs. She added, looking into the future, the Board also needs to look at what are the operating and maintenance costs because when it comes to software off the shelf a lot of customization needs to be done at a pretty large price tag. Ms. Weldon indicated there were also interfaces that need to be built, and either the cost of ownership of the system or buying someone else's system. She emphasized that ITS and the Retirement Office have already spent a lot of time and effort and have been working on this for quite a

while thinking RAP II was the selected solution.

Mr. Moore agreed with Ms. Weldon's suggestion that the decision of which route to go should be driven on the requirements rather than technology. He then inquired of Ms. Bhatia if there was a requirements document or some sort of a priority that was established in terms of the types of things the Board would like to accomplish that will either improve the service the Retirement Office provides or make it more efficient. Ms. Bhatia responded the ITS group has been working with staff on the functional requirements document. She stated the Retirement Office has been working with ITS in explaining their current system and what improvements are needed. Ms. Weldon commented when looking at the requirements there are two things to look at, the business and the technical requirements. She stated on the IT side they address the technical requirements to meet whatever functionality is needed, but there are always the business requirements, which ITS cannot identify. Ms. Weldon expressed, as far as she knows, all of this has been addressed but the only way the system can be built is to make sure it satisfies both requirements, which has been well defined. Mr. Moore inquired, when talking about what has been done so far, was Ms. Weldon referring to Phase 1. Ms. Weldon responded in the affirmative. Mr. Moore then inquired if Phase 2 and the subsequent phases had been pursued yet in terms of requirements. Ms. Weldon responded in the negative.

President Romero inquired, assuming the Retirement Office chooses to go with Pension Gold, would the Department outside of Retirement still use that RAP II System and Pension Gold as an interface. Ms. Weldon responded that the Membership system has active employees and RAP deals with retirees, but Pension Gold has both of those components. President Romero recommended discussing this further in more detail at a Special Board Meeting after the presentation. He stated the Retirement Office could then present their business needs and the Retirement Board could propose their vision.

Mr. Canzano inquired if there was a document outlining the business needs of the office. Ms. Bhatia responded she was not aware of a document that exists within the Retirement Office. President Romero requested that PCA support staff in any way they can as far as flaws they are aware of with using an in house systems or outside sources. Mr. Rue responded this was a bit out of PCA's realm of knowledge but perhaps Mellon would be able to assist staff. Mr. Moore suggested Ms. Bhatia find out if there is a document that has delineated any of the requirements in the past. But, if not, staff should get their needs down on paper so the Board can gain a better understanding. President Romero recommended inviting Pension Gold to be in the audience while ITS makes their presentation and vice versa, in order to get different views and perspectives.

c) Florida's Lawsuit Against Pension Firm Heads to State Court (Wall Street Journal Article dated March 7, 2005)

Ms. Bhatia reported this was an article included for the Board's information.

d) LACERS' memo dated March 4, 2005 regarding State Pension Proposals

Ms. Bhatia reported Item 16d concerns the recent pension plan proposals, particularly Assembly Constitutional Amendment 5. She stated LACERS was asked to comment on the possible impacts that the City would experience if this proposal passed. Ms. Bhatia noted the correspondence on page 16d.1 of the agenda packet is LACERS' response to the Personnel Committee, and their recommendation is that the City oppose that particular amendment. She informed the Board there was another review of the pension proposal by the Department of Fire and Police for the Board's information. She stated both articles were presented for Board's information and also to determine whether DWP's Pension Plan should possibly take a position. Ms. Bhatia stated if the Board does decide to take a position it has to go through Personnel and then the Mayor's Office. President Romero inquired if the Retirement Board has been asked to take a position. Ms. Bhatia responded this was put in the agenda packet because some of the Board members indicated they would like to be informed of any developments in connection with this. She reported the Retirement Office had been asked by Public Affairs via email about the possible effects on our pension plan if this proposal was to be passed. Ms. Bhatia explained that the proposal states that any new employee, on or after July 1, 2007, would have to be enrolled in the Defined Contribution Plan as opposed to the current Defined Benefit Plan. Also, employees hired prior to July 1, 2007, would also have the opportunity to enroll in the Defined Contribution Plan. She indicated this would potentially have an impact on the Department of Water & Power in terms of contribution. However, staff has not been formerly asked for their position. Attorney Wilkinson stated this was an issue where the Departments of the City cannot have their own positions. However, the City Council and Mayor, from an official City position, requested the pension plans give their input so that the City could be more informed about different opinions to take under consideration. President Romero asked if DWP Retirement has been asked for their input, but has not responded. Ms. Bhatia responded that the Department has been asked for some brief input on the impacts by DWP's Public Affairs, but have not been asked by the City yet. Mr. Moore clarified that at a prior Board meeting, Mr. Rozanski indicated he had been asked questions by the City, which is reflected in the Board minutes that were just approved. He stated it was his opinion that the Retirement Board should take a position on this matter, and it sounds like the other two pension plans have already done so. However, since this is not a formal agenda item he was not sure if action could be taken. Attorney Wilkinson informed the Board that action could not be taken. Mr. Moore stated in his review of the positions that have been taken by the other two retirement boards, he particularly liked the one that was put together by Police and Fire. However, there is still quite a bit of focus on some of the technical issues in terms of potential costs. He expressed his concern that it is a much more philosophical issue then it is a technical issue, and he has very strong feelings against the approach that is being proposed by the Governor. Mr. Moore recommended the Board convey their feelings to the rest of the City. He expressed there should be less focus on the technicalities and more on the fundamental philosophical reasons of why we have these Retirement Systems and the importance of them in a Civil Service environment with dedicated employees. President Romero agreed with Mr. Moore in that DWP should be proactive and respond in some fashion when the issue is agendized.

General Items

17. Future agenda items.

Ms. Calvache requested an update on what security measures have been taken with regards to only authorized personnel having access to the Retirement Office file room.

President Romero recognized Mr. Rue for receiving an award for Consultant of the Year.

The Board meeting was adjourned at 11:42 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary