

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

MINUTES – April 5, 2006

Present:

Javier Romero	President
Lilly Calvache	Vice-President
Michael Moore	Retiree Member
Eugene Canzano	Board Member
Ron Vazquez	Chief Financial Officer
Forescee Hogan-Rowles	Commissioner

Absent:

Ronald Deaton	General Manager
---------------	-----------------

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Irene Colon	Recording Secretary
Neil Rue	Pension Consulting Alliance
Mike Wilkinson	Deputy City Attorney

President Romero called the meeting to order at 9:38 a.m. after the Pledge of Allegiance.

[Pledge of Allegiance]

Ms. Bhatia indicated a quorum of the Board was present. President Romero congratulated Ms. Bhatia on her permanent appointment as Retirement Plan Manger in the DWP Retirement Office.

PUBLIC COMMENTS

President Romero inquired if there were any public comments.

There were no public comments.

President Romero reported item 1 is submitted for consent approval as follows:

1. Approval of Board Minutes of February 15, 2006

Mr. Moore moved adoption of the above item 1 on consent. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

Commissioner Hogan-Rowles joined the Board meeting at 9:40 a.m.

- 2. Report from City Attorney Michael R. Wilkinson on the National Association of Public Pension Attorney's Winter Section Meetings**
- 3. News release regarding T. Rowe Price Chairman George Roche's retirement later this year**

Mr. Vazquez referred to Attorney Wilkinson's memo on page 2.1 regarding his attendance at the National Association of Public Pension Attorneys Winter Section Meetings. He requested clarification of the second to the last paragraph of the report that read, "Determination letters formerly issued with no expiration date, now expire in five years," and what it means in terms of the Plan. Attorney Wilkinson explained that a tax determination letter is currently not mandatory; however, in the future the I.R.S. will place a determination letter requirement based upon the type of employer. He stated that public plans will be placed on different schedules and should the Department want to get an updated approval letter it will have to be in the timeframe indicated in the memo. Mr. Vazquez inquired if there is still currently no expiration for what has already been filed. Attorney Wilkinson responded in the affirmative. He stated that most of the participants at the meeting believed if there were a major change in the plan structure a new letter should be submitted to provide protection for that change.

Mr. Canzano requested Mr. Wilkinson expound on the last paragraph of his report. Attorney Wilkinson responded that there is a legal theory that has been used in San Diego to prosecute certain members of the San Diego Pension Board and General Council for voting themselves benefits that they were not legally allowed to have.

- 4. Discussion of Merrill Lynch Investment Management (MLIM)/Black Rock merger and approval to place MLIM on watch status**

President Romero introduced item 4, Resolution 06-52, and inquired if Mr. Neil Rue of PCA had any general comments.

Mr. Rue indicated the Board received memos from staff and the consultants, and they both concur that Merrill Lynch should be placed on watch status due to their merger with BlackRock resulting in a big organizational change. He indicated PCA has been in contact with the Passive Equity team at Merrill Lynch, who manages \$1.7 billion of WPERP's assets. He added the team of five has basically remained in tact, however, one member did leave, but it was not the senior person running the assets.

President Romero acknowledged that Mr. Obie McKenzie, of Merrill Lynch was present at the Board meeting.

Mr. Vazquez noted PCA's memo indicates Mr. Richard Vella and other employees plan to stay together. He then inquired if any of them have left. Ms. Bhatia responded that Vincent Costa (in general management) left the team. Mr. McKenzie informed the Board that Mr. Costa, the manager of the team, did leave. However, he was not the portfolio

manager managing WPERP's assets. He added the two portfolio managers most directly responsible for WPERP's assets are Mr. Richard Vella and Ms. Debbie Jelilian. Mr. McKenzie explained that the five portfolio managers responsible for Merrill's quantitative assets (\$50 billion) are now going to report to the Chief Investment Officer (CIO) of the firm until the merger is complete in the third quarter of 2006. He reassured the Board that the quantitative asset team responsible for WPERP's assets and making the day-to-day decisions about security transactions are still in place. Mr. Vazquez inquired how long had the current team members been with Merrill Lynch. Mr. McKenzie responded since inception. Mr. Vazquez inquired how the merger will affect these employees. Mr. McKenzie indicated he would now carry a BlackRock business card when the merger is completed. He explained that PNC bank owns 70% of BlackRock, which is one of the largest asset management firms (primarily fixed income) in the world. Mr. McKenzie stated Mr. Stan O'Neil (Merrill's CEO) and Mr. Bob Doll saw an opportunity to merge the two businesses, creating tremendous synergies in the merger. He explained the reason for the merger is that BlackRock did not have a retail business, Merrill Lynch has a big retail business, and there are 15,000 Merrill Lynch brokers in the market selling Merrill Lynch mutual funds. When the two companies are merged together, Merrill Lynch Investment Managers goes away and becomes part of a trillion dollar asset management firm, bringing the market a lot more product capabilities, particularly in fixed income and on the retail side. Mr. Vazquez inquired what number of employees from Merrill Lynch went over to BlackRock and what number is going to be retained. Mr. McKenzie responded that this will not officially happen until the 3rd quarter of 2006. He stated it is not yet known how many employees will be retained, but they will keep the consultant and staff updated as talent reviews take place.

President Romero moved approval of Resolution 06-52. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: Romero, Calvache, Moore, Canzano, Vazquez, and Hogan-Rowles

Nays: None

5. Resolution of Retirement Office budget for 2006-2007 fiscal year

President Romero introduced item 5, and inquired if any discussion was necessary. Mr. Canzano inquired what the recommended rate of 12.63% refers to in the annual budget as of June 30, 2005. Ms. Bhatia responded that the 12.63% is the recommended rate by the actuary and is a percentage of the Department's annual payroll (of approximately \$600 million). She added, this is in addition to the Department matching of contributions of approximately 6.5%.

The total required contribution is 19.2% annually of the Department's payroll. Ms. Bhatia stated this was recommended at the last actuarial valuation, and equates to roughly \$118 million per year in terms of contributions. Every month the Department is billed 1/12 (one-twelfth) of that amount which begins right after the actuarial report is adopted by the Board. Mr. Canzano inquired if the amount being proposed is higher than, the same, or lower than what has been done in past history. Ms. Bhatia indicated that this proposed amount is higher than in previous years.

Ms. Bhatia noted that replacement pages were distributed because some of the pages in the proposed budget packet were mistakenly included. She clarified that the number of regular positions requested for fiscal year 2006-2007 is fifty-seven. This is an increase of only one position from the FY 2005-2006. The additional position is for an Investment Officer and is necessitated by the new investment processes taking place.

Ms. Hogan-Rowles inquired how this relates to what was discussed at a previous meeting, wherein there were three positions recommended and not yet filled. She also inquired if those were included or excluded. Ms. Bhatia responded that those positions were included, were listed on page 5.6 of the agenda package, and are the positions of Investment Officer II and the Chief Investment Officer. However, the positions are not established and do not have job descriptions in the Department. She explained that Human Resources and Labor Relations are currently working on this.

Ms. Calvache inquired if Ms. Bhatia had heard any feedback from Labor Relations regarding the positions needing to be filled in the Retirement Office. Ms. Bhatia responded that staff has followed up with Labor Relations and is currently in discussions with them. She stated Jason Perez (Human Resources) is working to establish these positions by June 30, 2006.

Ms. Hogan-Rowles asked what the next step would be to approve the proposed budget. Ms. Bhatia explained that she will be presenting the proposed budget at the General Manager review, scheduled for April 12, 2006, and then to the DWP Board of Commissioners.

President Romero noted that all budgets are being scrutinized very closely. He requested Ms. Bhatia convey the Retirement Board's feelings to Mr. Deaton (during the General Manager review) that due to the significance of the duties, size, and staffing in comparison to other pension plans, the Retirement Office budget should not be scrutinized. President Romero also noted that the Retirement Office staff works well, given the outdated computer systems. The educational needs and the conferences, which are also being scrutinized, are important tools that should remain available to the trustees. President Romero also expressed his opposition to the recommendation that the IT positions be removed from the Retirement Office staff and consolidated into the ITS budget.

Mr. Vazquez responded that he will be a part of the General Manager's review for the Retirement Office's budget and all other budgets within the Department. He stated, while the Retirement Plan is very important, so is every other Department function. Therefore, it will be given the same degree of scrutiny. Mr. Vazquez stated that the DWP Board of Commissioners met yesterday and reaffirmed that they are going to have a zero-based look at all of the budgets and look into things with a lot more detail. He added that he fully supports the level of the proposed budget for the Retirement Plan Office.

Mr. Vazquez commented, with regards to the IT positions, the Department is consolidating ITS positions across the Board and giving it new direction. He stated he

was assured by Mr. Deaton and Mr. Rozanski that by moving the three employees from the Retirement Plan Office to the main IT function, the work in the Retirement Office will be made top priority and will receive the full devotion needed to get the new computer system in place.

Mr. Vazquez noted that the new sheet Ms. Bhatia handed out to the Board reflects a total salary increase of \$242,000 from what was previously proposed. He then inquired if this increase was due to the Investment Officer being requested. Ms. Bhatia explained that the replacement pages that she provided should be compared to the 2005/2006 budget, and the remaining salary increase is a result of the additional Investment Officer I position and the upgrade of the Utility Administrative II position.

Mr. Vazquez inquired what was meant by the term "pre-retirement". Ms. Bhatia explained that pre-retirement encompasses seminars, training and allocation of salaries of the employees, which provides the services necessary before a member retires.

Mr. Vazquez stated that the new computer system that will be installed in the Retirement Plan Office will most likely have a maintenance contract associated with it. He noted that the proposed budget includes \$60,000 for data processing expenses and inquired where the maintenance fees associated with the new computer system is listed. Ms. Bhatia indicated the fees are listed under "other professional services" and that the amount has remained the same for the past several years.

Commissioner Hogan-Rowles commented she supports the IT positions remaining in the Retirement Plan Office. She expressed if those positions are moved to the ITS Section's budget, the Retirement Plan Office will still need those four employees dedicated solely to the Retirement Office. She proposed that she write the General Manager advocating her full support of the Retirement Office budget as it stands. Commissioner Hogan-Rowles also commented that it was important the requested positions the Retirement Office is requesting be filled. She stated she wanted to go on record as saying if there was anything she could do to help with the process to let her know. Also, when the budget is presented to the Board of Commissioners she would like to be prepared to speak to it when it comes up as an item. Ms. Bhatia responded that the General Manager's review will be held April 12, 2006. Commissioner Hogan-Rowles inquired when the budget was going to the Board of Commissioners. Mr. Vazquez responded the last meeting in June. Ms. Calvache expressed she was also in full support of having IT employees in the Retirement Plan Office on a full-time basis.

Mr. Canzano agreed that at least while the new computer system is being installed the Retirement Plan Office will need to have the four full-time IT employees. He commented the new computer system may free up the Retirement staff to perform other job duties because Plan participants will then be able to do some of their own pre-retirement work. Mr. Canzano was also concerned about the availability and long waiting list of the pre-retirement seminars held once a month. He requested that appropriate provisions for those services be included in the budget.

Ms. Calvache expressed concern regarding the long wait to receive a retirement estimate. Commissioner Hogan-Rowles inquired if the new computer system would

produce automated retirement estimates. Ms Bhatia responded that was the goal. Mr. Canzano commented that LACERS members are able to estimate their own benefits on line.

Mr. Moore expressed frustration from the lack of specification on the proposed budget packet. For example, on the list of personnel requirements, he would like to see an additional column indicating if the positions are vacant or filled. Ms. Bhatia indicated there is more specific information listed under the details section, and offered to email that section to the Board Members. Mr. Moore also suggested workload indicators to better portray the level of service the Retirement Office is able or unable to provide for the various types of requests from retirees and active members.

Mr. Moore expressed his concern that the outside vendors who will create the new computer system are lacking knowledge of the Retirement Plan Office's requirements or processes. Consequently, placing a lot of confidence in their ability to help deliver this new system is unrealistic. Mr. Moore stated, for that reason, he fully agrees with Commissioner Hogan-Rowles in that the Retirement Board needs to strongly advocate before the full Board that there be dedicated personnel to the function of supporting the Retirement Office and getting the systems up and running. However, he is far less concerned whether those individuals are in the Retirement Office versus in ITS. Mr. Moore conveyed his feelings that the employees could be better utilized in ITS so they can be managed by people that know the systems that are being interfaced. Mr. Moore concurred with President Romero's concerns that the employees from ITS will be pulled away to do other assignments when another fire starts. He expressed that this should not happen because the Retirement Office has waited too long for these major systems and they are too important to the delivery of the services to the members and retirees. Commissioner Hogan-Rowles responded that Mr. Moore's concerns are all the more reason why the ITS employees should be stationed in the Retirement Office until after the systems are up and running. She stated when one is implementing a new system, typically, the manager of the project would be reporting to the office manager, but also reporting to the consultant that is implementing the system who is also conducting the training. She explained the reason for this is because there is going to be a training gap between the existing staff and the staff that is going to be hired. She added all need to be trained at some level from the firm who implements the system.

Ms. Bhatia inquired, based on the discussion, did the Board want to approve the resolution or have it brought back after the General Manager's review. President Romero suggested approving the budget first and then take action on the ITS positions.

Mr. Vazquez recommended President Romero talk to Mr. Deaton regarding the ITS issues. He stated if the budget is approved the way it currently stands, it would include the four IT employees in the Retirement Office and, therefore, a separate resolution would not be necessary. President Romero requested his comment regarding a separate resolution be stricken.

Mr. Vazquez moved for approval of Resolution 06-53. Seconded by Ms. Hogan-Rowles and carried unanimously after the following vote:

Ayes: Romero, Calvache, Moore, Canzano, Vazquez and Hogan-Rowles

Nays: None

Mr. Vazquez requested follow-up on the previous Board approval for the Retirement Plan Office to create a video of the pre-retirement seminars to be distributed to outlying areas. Ms. Bhatia indicated there is a prepared presentation of the retirement seminars, but she needs to research whether the videos are being used to send to the outlying areas. Ms. Calvache requested the Board have an opportunity to view the video. She also suggested the tape may have to be updated as some services have changed. Mr. Canzano requested the video be made available to all members via the intranet. He then expressed how impressed he is with the DVD's of the Commissioner's meetings and he would like staff to explore who is producing those DVDs and have them record the Retirement Board seminars.

6. Retirement Plan Manager's Comments

a) General Items

Ms. Bhatia reported to the Board that the transition of funds from the BNY active Small Cap was completed last week. She stated 75% of the transition was completed on March 30, 2006, and the remaining completed the next day. Ms. Bhatia informed the Board that a report was expected by the close of business on April 6, 2006. She stated the transition went well and cost the Plan thirty-five basis points.

Ms. Bhatia advised the Board that a Special Board meeting is being scheduled for presentations of the short list of candidates in connection with the responses to the computer system RFP. She added there will be three presentations on April 12, 2006 at 8:30 a.m.

Commissioner Hogan-Rowles requested a recap of what was said during the telephone call to Bank of New York. Ms. Bhatia provided the commissioner with a summary.

7. Future agenda items

Mr. Vazquez noted he had requested the City Attorney's Office provide updates on what it would take to transfer the post-retirement health care trust fund from the Department to the Retirement Plan Office. He stated Attorney Wilkinson informed him that it would be better to wait until the first meeting in May to present the report.

Ms. Calvache inquired about the status on the Assistant Plan Manager positions. Ms. Bhatia reported the list had been certified and interviews should be conducted within 10 to 12 days.

The Board congratulated Ms. Bhatia on her appointment to the position of Retirement Plan Manager.

The Board meeting was adjourned at 10:40 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary