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

MINUTES – May 3, 2006

Present:

Javier Romero	President
Lilly Calvache	Vice-President
Eugene Canzano	Board Member
Ron Vazquez	Chief Financial Officer

Absent:

Michael Moore	Retiree Member
Forescee Hogan-Rowles	Commissioner
Ronald Deaton	General Manager

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Irene Colon	Recording Secretary
Neil Rue	Pension Consulting Alliance
Tad Ferguson	Pension Consulting Alliance
Mike Wilkinson	Deputy City Attorney
Nick Harris	Lexington Capital Partners
Dave Melandez	BNY
Avery Neaman	Risk Management
Tom Harrington	Retirement Plan Office Consultant
Alex Leonard	Mellon Bank

President Romero called the meeting to order at 9:40 a.m.

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

PUBLIC COMMENTS

President Romero reported there was a recent election of the new Board for the elected members and stated that, regretfully, Ms. Calvache chose not to run. He thanked Ms. Calvache for her six years of hard work, noting during her tenure, together with the other Board Members, they have worked together to transform the Plan by lowering risks and increasing potential returns and have moved to modernize the Plan through approval of the integrated computer system and working towards full discretion management. President Romero presented Ms. Calvache with a resolution recognizing her service on the Board as Vice-President, Chairperson of the Benefits Committee, a DWP employee for 26 years, her current work with IBEW Local 18, her effectiveness in resolving disability appeals in a fair and timely manner, and her assistance (along with other retirement Plan board members) in implementing strategic changes in the area of retirement Plan investments.

Ms. Calvache thanked the Board stating she has been honored to serve on the Board and looks forward to continuing to work with the Board, but now from the other side of the table.

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

	1.	**Approval of March 1, 2006, Board Minutes (Regular Board Meeting)**	
	2.	**Termination from Monthly Rolls as of April 2006:**	**2.1 – 2.5**
06-55		**Retirement Resolution for April 2006**	
06-56		**Resolution Terminating Lena Tobol from the April 2006 Survivorship Roll as a Result of Her Death**	
06-57		**Resolution Terminating the Following Monthly Allowances From the April 2006 Family Death Benefit Roll: Brandon Griffith and Joel T. List (attained 18 years of age), Carol Marie Griffin and Kirsten List (sons attained 18 years of age)**	
06-58		**Resolution Terminating Bodesia Hughey from the March 2006 Family Death Roll (attained 18 years of age)**	
06-59		**Resolution Terminating Dennis Dubon from the April 2006 Permanent Total Disability Roll (deceased)**	

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

Ayes: Romero, Calvache, Canzano, and Vazquez

Nays: None

3.	**Report of Payment Authorizations as of March 2006**	**3.1 – 3.96**
4.	**Notice of Deaths for March 2006**	**4.1 – 4.2**
5.	**Report on Status of Insurance as of March 31, 2006**	**5.1**
6.	**Summary Investment Returns as of March 31, 2006**	
	a) Market Value of Investment by Fund and Month as of March 31, 2006	**6a.1 – 6a.2**
	b) Market Value of the Retirement, Death & Disability Funds as of March 31, 2006	**6b.1 – 6b.3**
	c) Investment Returns as of March 31, 2006	**6c.1 – 6c.2**

Ms. Calvache moved the above items 3 through 6 be received and filed. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

7. Discussion and possible selection of private equity firm recommended by PCA 7.1

- **PCA presentation**
- **Lexington Capital Partners' presentation**

Mr. Tad Ferguson of PCA and Mr. Nick Harris of Lexington Partners approached the table. President Romero recognized Mr. Ferguson and Mr. Harris.

Mr. Ferguson explained that PCA is recommending to the Board the Lexington Capital Partners' VI (Lexington) investment opportunity as an initial commitment to a private equity program. As a refresher to previous educational and strategy presentations, Mr. Ferguson, provided the Board with a summary of the benefits of secondary market fund-of-funds as initial commitments to private equity programs. Mr. Ferguson then stated that PCA recommended Lexington because they are one of the largest and most experienced firms in the secondary market fund-of-funds sector. He went on to explain that Lexington has a successful track record and continued success is expected. PCA prepared a due-diligence review and Mr. Ferguson offered to answer any questions the Board had pertaining to PCA's review and how the due-diligence review was conducted.

President Romero requested Mr. Ferguson address the legal review. Mr. Ferguson stated that the legal review primarily focused on verifying business-terms. He noted WPERP's legal counsel had not yet reviewed the documents for any specific, unique concerns; but if the Board decided to proceed with the Lexington opportunity, then a final legal review would take place. Mr. Ferguson mentioned that Lexington already has several large, sophisticated institutional investors as clients and the legal documents have been evaluated and accepted by those clients' attorneys. According to Mr. Ferguson, Lexington's legal documents appear mainstream and a straightforward legal review is anticipated.

President Romero asked Mr. Ferguson what percentage of the Plan's allocation would go to this fund. Mr. Ferguson responded that PCA is recommending the Board commit $30 million. He also stated, the Board has to commit over the target amount and so this is approximately 10% on a market value basis of the Plan's target market value. He added, given the funding considerations and the way the capital is drawn down and capital is distributed back, the market value of this underlying portfolio is not expected to be more than half of the $30 million commitment. Mr. Ferguson stated at no time would there be more than $15 million outstanding market value, so it is more like a 5% position noting PCA plans on bringing more opportunities forth this summer and fall.

Mr. Neil Rue approached the podium. President Romero acknowledged Mr. Rue. Mr. Rue stated, in response to President Romero's question, the $30 million commitment is one-half of 1% of the total fund. He also clarified that the statistics Mr. Ferguson spoke of were percentages of the private equity portfolio, not the Plan's entire allocation. Mr. Rue noted that a $30 million commitment is a small percentage of the total fund, but a reasonably significant portion of the private equity portfolio.

Mr. Rue returned to his seat.

Mr. Canzano asked for a definition of the term “buyouts”. Mr. Ferguson explained that buyout funds take control positions (at least 50% ownership) in mature, established firms. In the 1980’s this meant applying leverage and paying it down. He commented currently, it means taking control positions, improving operations, expanding multiples and selling-off after a three to five year holding-period.

Mr. Canzano asked, regarding Ms. Bhatia’s memo, was the phrase “adequate resources” referring to staffing resources. Ms. Bhatia responded in the affirmative.

Mr. Vazquez asked how many firms did PCA review prior to making this recommendation and why was Lexington recommended. Mr. Ferguson responded that he believes there are only about four or five firms in the secondary private equity market. He stated Lexington was chosen because they are the largest and PCA has recommended them to other clients with a successful outcome. Mr. Ferguson explained there is another firm that they have done a significant amount of due diligence on, and plan to present to the Board in the future. He noted Lexington is near the end of their fund-raising cycle, so that is why they were prioritized today; adding, of those two firms, PCA feels that Lexington is the largest and most experienced.

Mr. Vazquez asked how PCA determined the commitment amount of $30 million. Mr. Ferguson referred back to the strategy where $80 million per year was the anticipated target amount in order for the overall private equity program to reach the funding goal in four or five years. He noted allocating $30 million with Lexington is a meaningful commitment but still allows for manager diversification over several commitments. Mr. Ferguson stated, if the Board agrees to this recommendation to Lexington, and $30 million to the other private equity firm that PCA is considering recommending to the Board, that will bring the total to $60 million and will still leave capital available for primary market fund-to-funds that will be presented later this year.

Mr. Nick Harris, who manages the northern California office for Lexington Partners, approached the table. He provided the Board with an overview of the private equity market.

Mr. Vazquez referenced page 5 of Lexington’s presentation material and inquired as to the best return indicator to compare Lexington funds. Mr. Harris responded that his firm believes the best benchmark for private equities is the Venture Economics Top Quartile. He stated his firm references the Russell as well because many of their Public Pension fund clients use the Russell benchmark for their overall private equity program. Mr. Ferguson stated PCA agrees that the Venture Economics Quartile is the appropriate benchmark to use.

Mr. Vazquez asked Mr. Harris in his experience what is the failure rate on the partnerships that are purchased. Mr. Harris explained that there are two failure rates. The first failure rate, which is not significant to the secondary industry, is when an original investor does not receive back their initial investment. Because it is not significant to the secondary industry, Mr. Harris does not have the statistics on the failure rate, but estimates that between 80%-90% of original investors at least make back their original investment. In the secondary market, most of that type of risk is bypassed because at the five-year mark, most of the failures have already occurred. He stated that the failure rate is less than 5%.

Mr. Vazquez then asked how Lexington Partners keeps up with all the partnerships with only 38 employees. Mr. Harris explained that the administrative staff, which is located in New York, currently consists of eight or nine people who's sole responsibility is tracking partnerships, distributions, and capital calls, using specific computer software to accomplish this. All of the investment professionals are responsible for developing relationships with companies in order to monitor performance. He noted the Lexington Partners' offices are intentionally located in cities where the private equity funds are generally located.

Ms. Bhatia inquired if the Venture Economics benchmark noted on page 5 of their presentation material excludes failed ventures or does it include all participants? Mr. Ferguson responded that while some less successful partnerships are included in the Venture benchmarks, there are reporting issues because some of the failed partnerships may have stopped reporting. He added, in the private equity market, however, it is considered to be one of the better benchmarks.

Ms. Bhatia asked how long would it take to recover the original investment in this proposed fund. Mr. Harris responded there are two answers to this question: 1) If you commit $30 million, you will never be more than $12-$15 million net invested so you will recover in four years, plus or minus; 2) if you do the gross calculation, to receive the full $30 million in distributions, it will be at least six years.

President Romero inquired if there was any additional discussion or closing comments. Mr. Ferguson reiterated that PCA believes that in light of the unique risks and attractive benefits, this opportunity with Lexington Capital Partners is an attractive opportunity and a great building block as an initial commitment to the Plan's private equity program.

President Romero asked would Lexington VI close at the end of the month. Mr. Ferguson responded that it would. Mr. Canzano inquired if the Board decided to approve this partnership, could they move to fund before the end of the month. President Romero responded that as long as the Plan is committed to the partnership, even if it closed before the funds were turned over, the Plan would still be included. Mr. Ferguson agreed that as long as the legal documents were signed and the transfer of funds was in progress, the timing should not be an issue.

Mr. Harris left the Board meeting.

Mr. Vazquez inquired where the funds would come from. Ms. Bhatia responded that the money is to come from the Passive investments portfolio.

Mr. Canzano moved to invest with Lexington Capital Partners pending legal review. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Romero, Calvache, Canzano, and Vazquez

Nays: None

8. Transition Report from Bank of New York Global Transition Management **8.1 – 8.4**

Mr. Neil Rue, of PCA, approached the Board table. President Romero recognized Mr. Rue.

Mr. Rue congratulated the Board on its selection of Lexington Capital Partners as a private equity company. He also thanked Ms. Calvache for her service and for being an ally to PCA. Mr. Rue explained that PCA has written a memo as a third party review of the BNY-GTM transition. He reminded the Board that Bank of New York, Small Growth Asset Management (small growth mandate) was let go for a variety of reasons that was summarized in their memo. Mr. Rue stated the transition went fairly well, adding the principal was basically preserved, and the BNY managers did well versus their preliminary budget. Mr. Rue noted the trade cost forty-one basis points, which PCA feels is a reasonable number and PCA is now working with Staff to conduct a small growth search for an active manager replacement, and should have that completed in July.

President Romero inquired if there is a big pool of candidates for the small cap growth manager. Mr. Rue responded that the number of candidates is currently unknown, as the request for proposal had not yet been released.

Dave Malacek of BNY approached the podium. President Romero recognized Mr. Malacek.

Mr. Malacek thanked the Board and expressed appreciation for the opportunity to work with the WPERP. He also congratulated Ms. Bhatia on her appointment to the position of Retirement Plan Manager. Mr. Malacek apologized for the delay in transitioning the funds into the collective trust and for BNY-GTM not immediately notifying the Retirement Office staff about the delay. Mr. Malacek stated that the Plan was fully invested and there were no loss of points due to the delay and expressed that he looked forward to working with the Plan in the future.

06-60 9. Resolution Authorizing Contract Renewal with Systematic Automation Inc. (SAI) for the Production of Employee Benefits Statements for the Year Ended June 30, 2006 and June 30, 2007 **9.1 – 9.3**

President Romero stated that there has been some concern regarding extending contracts over three years noting SAI has been with us awhile. He asked Ms. Bhatia what were the plans regarding SAI’s contract. Ms. Bhatia explained that the plan is to have the entire system automated and eliminate the need to contract this service out. She added, since the computerization project will begin soon, she felt it appropriate to extend the current contract as opposed to issuing a new RFP. Mr. Canzano added that once we have our pension management system in place, it would eliminate the need to contract this out, so he feels that a two-year extension seems reasonable. Ms. Bhatia agreed noting that the amount of the contract is less than $30, 000 per year and this cost will be maintained during the extension.

Ms. Calvache moved to approve Resolution 06-60. Seconded by Mr. Canzano and carried unanimously after the following vote:

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

06-61 10. Discussion and approval of amendment to Mellon Bank's contract 10.1 – 10.5

President Romero asked Ms. Bhatia to give a brief statement. Ms. Bhatia stated the Plan currently has a contract with Mellon Bank that includes the issuance of certain reports from which Staff is able to review data. Ms. Bhatia responded staff is requesting that Mellon's contract be amended so that in addition to the currently received reports, Staff will also receive the daily analytics data. She noted this requires that the contract amount we have with Mellon be changed noting the range of additional costs would depend on the portfolios managed. Ms. Bhatia stated the incremental cost would be between $6,750 and approximately $7,400 adding staff has had an opportunity to review the daily analytic data to determine its usefulness and recommends the approval of Resolution No. 06-61.

Mr. Canzano moved to approve Resolution 06-61. Seconded by Mr. Vazquez and carried unanimously after the following vote:
Ayes: Romero, Calvache, Canzano, and Vazquez
Nays: None

11. Report from City Attorney on Postretirement Healthcare Benefit Trust Fund 11.1 – 11.5

President Romero noted that this item is presented to the Board at the request of Mr. Ron Vazquez. He asked Deputy City Attorney Mike Wilkinson if he had anything to add. Mr. Wilkinson responded that the memo included in the Board package should give the Board an executive summary on this topic and he will entertain any questions from the Board Members. He stated that this was brought to the Board via Ron Vazquez as Chief Financial Officer for the Department of Water and Power (DWP) adding that currently this fund is entirely under DWP's control and this Resolution would amend the Plan to establish a Retiree Health Benefits Fund under the Plan. Mr. Wilkinson noted some of the advantages of this change would be it allows additional investment options that currently cannot legally be used for this fund and it would help DWP because under the new Governmental Accounting Standards (GASB), the Department cannot receive any credit for putting this money away for future retiree's healthcare. He added another option would be to set up a separate trust, but noted that this would be a more complex procedure with no additional benefits. President Romero stated that he was not very familiar with the issues regarding this item and had many questions. He referred to the last sentence in Mr. Wilkinson's memo that read, "Since this change could be considered a meet and confer issue, the DWP management will be conferring with the union representative as part of the approval process." President Romero recommended the Board wait until after the meeting has taken place before fully engaging in a questions and answers session.

Mr. Vazquez agreed with President Romero and stated that he would speak to Mr. Deaton regarding contacting the unions. Mr. Vazquez also stated that he believes the proposed change will be looked upon favorably by all of the unions to know that future health-care cost funds are provided for and trust-deeded with the Retirement Plan Office. President Romero reiterated he had several questions such as: "Was this going to be a commingled fund? Was this going to be a separate account? Is the money coming in going to be a liability to the Plan as a whole? How is the rising Health care costs going to affect the members?" President Romero stated these issues should be addressed before the Board approves of the change. President Romero also stated that a separate account within the Retirement Plan might be a good idea. Mr. Vazquez stated there would be a separate account within the Retirement Plan. Attorney Wilkinson, added that in terms of investments, if the DWP account was set up the same way as LACERS, there would not be a separate account; however, in terms of protecting it for the members there would be a separate account. Attorney Wilkinson went on to state that the Department's outside tax counsel is working with the City Attorney's office, because the set-up is critical to ensure that no tax laws are violated and we do not lose the tax status of the Plan. He explained the move of the healthcare benefits funds to the Retirement Plan for investment must be set-up so that neither funds are used to "bail-out" the other. Mr. Wilkinson added, in terms of investments, the funds may be invested together, which makes it easier for the Retirement Plan administration, and avoids unnecessary high-fees, that might be associated with separately investing the smaller health benefit funds. Mr. Vazquez stated the two funds would continue to have separate actuarial reports. Attorney Wilkinson noted that while there would be just one report, actuarial funding would be broken out separately for health and retirement. Mr. Romero stated he would like to include PCA "in the loop" to inform the Board of any pros and cons regarding this process and how it would affect the Plan. Mr. Canzano inquired if he was correct in the assumption that if the health benefit funds were to come under and be contained within the Retirement Board, would the responsibility for funding be entirely with the Department and it would not draw on any other Retirement funds.

Attorney Wilkinson replied in the affirmative adding this would not change DWP's MOU with the members. He stated the changes, from a member's respective, would all be positive adding currently the funds are being controlled by DWP, not the Retirement Plan. Mr. Canzano stated the healthcare liability would not become a liability of the Retirement Plan. Mr. Vazquez stated he was correct, adding the liability for funding would remain with the Department. Mr. Vazquez noted that the goal was to accomplish the change by the end of this fiscal year. He stated that he will report back on the status of the meet and confer with the unions. Mr. Vazquez also requested that Attorney Wilkinson provide the Board with monthly updates. Mr. Wilkinson stated that the City Attorney's office is aware of the time sensitivity and they are pushing to complete this as well. Mr. Vazquez noted that Attorney Wilkinson indicated in his memo that the City

Attorney's office will provide a "detailed plan to implement the requested change after the analysis of the various experts is complete". Attorney Wilkinson stated that, unless directed otherwise, the City Attorney's office intends to draft a Plan amendment to allow the change. Initially, Attorney Wilkinson was concerned that the change would require a City Charter change, but after review by the City Attorney's Office, it has been determined that is not the case. Mr. Vazquez indicated that as soon as Attorney Wilkinson drafted the proposed Plan amendment, he would like it presented to the Board for review. Attorney Wilkinson responded that the reason this has not yet been done is to avoid wasting time while the appropriate conceptual reviews by the Auditor, outside tax counsel, and DWP Financial Services Organization are being obtained. President Romero stated that although we need to go to the labor unions to get approval, once all the information comes through regarding benefits to the Department, PCA should still review the impact on the Plan.

Mr. Rue approached the podium. President Romero acknowledged Mr. Rue.

Mr. Rue stated that in addition to PCA reviewing the information there should be an actuarial review. Attorney Wilkinson added that, the actuary, Paul Angelo (The Segal Company) is already involved. Mr. Rue inquired if Mr. Angelo provided any reports on the matter. Mr. Wilkinson replied that Mr. Angelo has produced reports to the Department for this fund, because it is currently under the control of the Department.

Mr. Rue returned to the audience.

Alex Leonard of Mellon Financial (Mellon) approached the podium. President Romero acknowledged Mr. Leonard.

Mr. Leonard stated that Mellon has discussed this issue with Mario Ignacio (DWP Financial Services Organization) and reviewed the assets that are involved. He requested that, to the extent possible, Mellon Financial be allowed to work with PCA and the Board, to achieve the goal of moving the assets by the beginning of the next fiscal year. Mr. Leonard noted some of the securities that are in the portfolio will require a conversion plan prior to movement. This may take more than 30 days, in advance of the asset transfer, to allow Mellon to work with the Department's prior custodian bank to ensure a smooth transition of assets. Mr. Leonard stated that, if the Board was interested, Mellon could draft a time schedule. President Romero requested that, in the future as a courtesy, the Board receive notification if any of the Plan's consultants, managers, or actuaries are to be used. He noted that, in the past, when Mr. Angelo has worked for the Department he appeared before the Board to obtain permission. President Romero also mentioned that this advance request to work for the Department may be stipulated in The Segal Company's contract. Mr. Vazquez explained the Department has a separate contract with The Segal Company to do any actuarial work related to the post-retirement health care matter and any expenditures incurred by this process are being borne by the Department. Mr. Vazquez also noted that Orrick, Herrington & Sutcliff are the Department's tax law firm and are working on this matter as well. President Romero reiterated that for the sake of formality and awareness, he believes it is important that the Board is informed and this could be put under "Received and Filed" when any of its consultants are working with the Department. Ms. Bhatia stated The Segal Company has a separate contract with the Department, and also provides services such as reviewing benefit changes during labor negotiations. Mr. Leonard stated that Mellon's look at the assets was unrelated to the movement of these plans over to the Retirement side. He noted that these were separate discussions with Mr. Ignacio regarding the Department's control over these assets as well as the Nuclear-Decommissioning Trust and corporate cash assets. Mr. Leonard stated that this was in relation to potentially looking at Mellon as a replacement for the Department's existing custodian. Mr. Vazquez requested that Mr. Leonard send a letter to the Retirement Board, copying Mr. Ignacio, outlining the time frame for Mellon to accept the trust assets. Mr. Leonard acknowledged Mr. Vazquez's request.

12. Discussion of responses to Integrated Pension System RFI and possible selection of vendor **12.1 – 12.47**

Mr. Romero stated at the last Board Meeting it was noted that IT had some concerns as to whether the new integrated pension system would be compatible with our present systems.

Mr. Tom Harrington approached the Board table. President Romero acknowledged Mr. Harrington.

Ms. Bhatia explained that at the April 26, 2006 meeting, the Board decided that the two finalists, JEA Pension Systems Solutions (JEA) and Levi, Ray & Shoup Inc. (LRS) should answer a series of questions to further determine their qualifications. She also mentioned that it was determined the finalists should work out the insurance requirements with Risk Management before hand, so that no insurance issues would arise at the time of implementation. Ms. Bhatia noted the answers to the additional questions were included in the Board package from both JEA and LRS. It was also requested that IT review the answers and she stated their response was part of the handouts the Board Members received that morning. Ms. Bhatia stated Avery Neaman was present to answer insurance-related questions and noted Deputy City Attorney Mike Wilkinson had reviewed the legal aspects of the insurance requirements. Ms. Bhatia stated that according to the provided responses, both vendors appeared similarly qualified to perform the job. She stated that Tom Harrington was also present to answer any questions the Board may have.

Mr. Avery Neaman, Risk Manager, approached the Board table. President Romero acknowledged Mr. Neaman.

President Romero asked Ms. Bhatia if she felt that the IT concerns had been answered to her satisfaction and that no significant IT issues remained unresolved. Ms. Bhatia responded that the concerns had been satisfactorily addressed and asked Mr. Harrington to elaborate. She stated that Tom Harrington was also present to answer any questions the Board may have. President Romero asked for information regarding the companies meeting the insurance requirements. Mr. Neaman stated he had concerns regarding exposing the Department to future litigation in the event that both firms are not required to carry the same limits of liability based on the requirements in the RFP. He noted JEA is able to fully satisfy the insurance requirements, but LRS prefers to self-insure the vast majority of the significant risk. Mr. Neaman commented that on their crime insurance they wish to self-insure $4.99 million of the required $5 million adding their $10,000 crime insurance policy is part of their general liability policy and is considered a “throw-in” which means they have no dedicated crime insurance. He added they carry a dedicated professional liability policy of $1 million, which leaves them $4 million short of the required $5 million. Mr. Neaman asked for Attorney Wilkinson’s opinion. Mr. Wilkinson responded, if the insurance requirements were changed in any substantive way, it would need to go back out to, not only the people who already bid, but to any other potential respondents who may now qualify based on the lower insurance requirements. Mr. Harrington reported that LRS’s response included an option wherein they would increase their fee proposal by about $30,000 in order to obtain the required insurance. He added this would still make their fee proposal lower than many of the other candidates. Mr. Harrington asked would the Board accept LRS adjusting their fee proposal and would that alternative require going out with another RFP. Attorney Wilkinson inquired if the only thing LRS is changing is their fee amount. Mr. Harrington answered in the affirmative, adding they were going to increase their fee by half the incurred cost. Mr. Neaman commented that he had some concerns regarding the 50/50 split LRS is proposing and clarified that Risk Management has not yet discussed their professional liability or their crime insurance regarding proof-of-insurance. He noted that he has received confirmation from JEA that they have our forms and have run them by their insurance broker and insurance carrier. Ms. Bhatia asked Mr. Neaman if he has actually seen any proof of insurance or has he just received verbal confirmation. Mr. Neaman responded, at this time, they are not required to provide proof of insurance on the Department’s forms, all we can get is a commitment. He reported he does have a commitment from LRS adding they at first stated their carrier would not complete our forms. After finding examples of this same carrier completing our forms with previous companies, LRS’s carrier did agree to complete the Department forms. Mr. Neaman stated that he is still in discussion with their attorney.

Ms. Bhatia stated that of the two firms, LRS is a larger firm in terms of asset size. She commented another benefit is that they have implemented this system with LACERS, which is very similar to WPERP’s. She also stated that insurance is a concern and it was up to the Board to allow LRS another opportunity to resolve this pending issue.

Mr. Vazquez noted that JEA has fully met our insurance requirement and the ITS concerns have been addressed. LRS, has only satisfied the ITS standards. Mr. Vazquez commented LRS’s solution to meeting our insurance requirements would be by obtaining $5 million in errors and omissions and $5 million in crime at a cost of about $45,000 for both, absorbing half of that (or $22,500) and add $22,500 to the annual fees for their services. He stated that the estimate for installation from LRS was lower than JEA, but inquired about the maintenance cost. Mr. Harrington responded that LRS’s estimate for maintenance cost is $1.2 million and JEA $1.1 million. Mr. Harrington noted the annual fee for LRS is $76, 000 and JEA’s is $105,000. If you add the additional fee due to insurance to LRS, it would make both annual fees comparable. Mr. Vazquez then inquired about the implementation time both companies estimated. Mr. Harrington stated that LRS’s estimated ten months and JEA eighteen months. Mr. Harrington also noted that ITS does not believe LRS's ten month implementation estimate time is credible. He also noted that, in his opinion, LRS's estimate is possibly credible if the company is able to use LACERS' system as the core system and make the necessary modifications. Ms. Bhatia stated, and Mr. Harrington agreed, that the ten months implementation time LRS has estimated is ambitious. Ms. Bhatia noted that the reason LRS gave for the short implementation period is due to the fact that they have already implemented LACERS, which gives them "a leg up". President Romero stated that he was more concerned with the ease of implementation. He noted he prefers to go with LRS, which is supported by the Retirement Plan Office staff. President Romero stated that if they can agree and make a recommendation regarding the insurance, he feels more comfortable proceeding with LRS. He also said that a ten- month implementation period would benefit the Plan with Disaster recovery. President Romero noted there are so many pension plans using this product, it would give us the opportunity to find someone out- of- state for our disaster recovery. Mr. Canzano asked for clarification on the history of events. He stated, as he understands it, we have narrowed it down to two bidders, LRS and JEA, noting, LRS did not fully comply with our insurance requirements as stated in the RFP. Mr. Canzano stated they have come up with a way of splitting the costs to provide the insurance and be in compliance and asked Mr. Neaman if he was happy with LRS's suggested 50/50 split. Mr. Neaman stated that he is not happy with the proposed insurance fee split, adding this is a business decision. He stated he would need written confirmation from LRS' insurance broker and insurance company that is proposing the additional coverage to see what the actual cost is. He added obtaining confirmation will take time. Mr. Neaman stated that LRS' assertion of the fee increase does not satisfy him. He wants to know if the additional insurance covers LRS' "entire book of business" or is it specific to DWP. Mr. Neaman commented that he wanted to know if the $45,000 buys them the additional coverage for their entire "book of business" or it is specific to DWP. He commented that if we are "kicking in" $22,500, this should be for the Plan's benefit only, adding he feels a more fair split would be 90/10. Mr. Neaman stated he is also very concerned with receiving LRS' proof of insurance. Mr. Neaman feels that he will need more time, to obtain confirmation from LRS' insurance carrier regarding proof of insurance. Attorney Wilkinson added that if the Board was agreeable to LRS adjusting the contract amount, then JEA should receive the same opportunity to adjust their price. Mr. Neaman stated that without allowing JEA the same opportunity, the situation could be viewed as allowing LRS an unfair advantage. Mr. Canzano was concerned that a new Request for Proposal (RFP) may need to go out, because the situation is becoming more complicated. Ms. Bhatia clarified that it was a Request for Information (RFI), and that even if a new RFI went out it would go to the same firms that were capable of providing the service. Mr. Harrington noted that, most of the other firms who received the RFI also had insurance issues. Mr. Wilkinson clarified that he does not feel a new proposal needs to go out, if the terms were not being changed. He did feel that all of the companies who responded should have an opportunity to adjust their bid if the original requirements are changed. Ms. Bhatia suggested that since it has been narrowed down o two finalists, the item be brought back after Mr. Neaman speaks with LRS and JEA's representatives. Mr. Neaman stated that he would need significant time to work out the details with LRS. He stated he would need to receive written verification of the $45,000 insurance fees increase because he wanted to make sure that no overhead fee's were included in this amount. Also, Mr. Neaman asked if the Board wanted him to negotiate the proposed fee split, and if so what was the acceptable percentage. Ms. Bhatia agreed to work with Mr. Neaman on negotiating the terms. Mr. Vazquez stated while it is necessary for both firms to have insurance at the required levels, the primary concern is the computer system and the selection of the firm should not be driven by the insurance concerns. He requested Mr. Neaman verify if the additional insurance would be provided for "the entire book of business" or exclusive to DWP. Mr. Vazquez also inquired what is the difference between an RFP and an RFI with respect to changing a response. Ms Bhatia replied, with a Request for Information (RFI), the information is sent to *selected* vendors in addition to posting it on the website so anyone *who is qualified* can respond. She clarified, an RFP is advertised in the papers, so anyone can respond – it is not specific to the people who can provide the service. Mr. Harrington confirmed for Mr. Vazquez that there is more flexibility in an RFI – as we are asking for information as opposed to a firm proposal. Attorney Wilkinson explained that for this situation, where the requirements are being changed after interested parties have already been eliminated, it is irrelevant if it was an RFP or RFI. Mr. Vazquez noted that the same opportunity should be given to JEA. President Romero suggested that both companies are contacted and given the opportunity to resubmit their offers. He verified that Ms. Bhatia and Mr. Neaman were both going to negotiate with LRS regarding the insurance. Mr. Vazquez asked how firm is LRS' ten months schedule and what guarantee does the Board have that the selected firm will meet its projected time schedule. Mr. Harrington stated that most of the explanations given when they "run over" was that "the system" decided they wanted something extra, or they had staff turnovers. He added that he did not feel it is unusual to run over when applying these systems. Attorney Wilkinson stated that this project would be difficult to claim damages for if the project is finished close to the projected completion date. He added if the project does go far over the target completion date then the City Attorney's office would address the problem. Ms. Bhatia explained the finalist were asked the same question Mr. Vazquez just posed in the supplemental questionnaire they were required to complete. The response given by both LRS and JEA was that most of the time when the target completion date was not met it was because during the process, the client asked for additional functionality and that was the reason they were adding on - but the basic core system was in place. He stated that the contract should include some contingency time, stating that if there is a delay that is partially or 100% caused by the Department, they would be excused from liquidated damages. In turn, if we want them to meet a certain timeframe, with contingency, the contract should build in some liquidated damages type of language, adding that this is the way it is addressed in contracts. Mr. Neaman clarified that this is how you "hold their feet to the fire," and it is a big motivator. He stated that Risk Management did require a 100% performance bond so if the firm fails to complete the job or runs into financial difficulty, the bond would be there to back that up. Mr. Neaman added, unfortunately, the Department has had a lot of adverse history in these areas and these systems are very complex.

Mr. Harrington commented that, at the end of the day, you want the best product possible and, if it takes 10 months or 14 months it, is not as important as a system that works. Mr. Vazquez agreed. President Romero requested that Ms. Bhatia report back to the Board next month.

Mr. Canzano added that it is very important for the Department's IT people to support this. He wanted to know the status of having dedicated IT staff assigned to work on the system. Ms. Bhatia stated we are in the process of hiring budgeted IT positions. She noted that IT has stated that they could only dedicate ten hours per week for the new computer project. Ms. Bhatia stated that the Retirement Plan Office will definitely need it's own dedicated IT staff. Mr. Canzano added that if the contract language is going to include liquidated damages, then the selected vendor must have the needed resources. Ms. Calvache asked were the two new IT people going to be hired after July 1, 2006. Ms. Bhatia responded that the positions are in the budget and she does not have to wait until July 1, 2006 to hire them. Ms. Bhatia explained that the positions are a Senior Systems Analyst and a Programmer Analyst, who will report directly to the Retirement Plan Office.

13. Retirement Plan Manager's Comments

DWP Plan Newsletter for Retirees (March 1 and April 1, 2006, Editions) **13a.1 – 13.a.2**

General Items

Ms. Bhatia explained that the election results will be finalized by the Board of Water & Power Commissioners at the May 16th, 2006 meeting. The unofficial results are: Mr. (President) Javier Romero was elected for the Water System, Mr. Eugene Canzano was elected for the Power System and Ms. Cindy Coffin was elected for the Joint System. The results will be presented to the Water & Power Board of Commissioners and be brought back to this Board in June.

Ms. Bhatia reported we are working on the RFP for the small cap growth manager. She added, for the RFI for real estate, we have received approximately five responses. PCA is working on evaluating the candidates. We have received responses for the RFI for the proxy service providers and it will be brought back to the Board at a later date.

Ms. Bhatia stated that Mellon Bank has provided a new proposal for a securities lending option that has the potential for an approximately $200,000 to $250,000 annual earnings increase. She inquired if the Board would like to have this opportunity brought back for their review. Ms. Bhatia mentioned that all of the securities lending options were reviewed before the current contract was entered into with Mellon Bank. President Romero informed Ms. Bhatia to bring the information back for review. Mr. Vazquez stated that he would like to have PCA's view on the option as well.

14. Future agenda items

Mr. Canzano, Mr. Vazquez, Ms. Bhatia, and Mr. Wilkinson all thanked Ms. Calvache for her years of service on the Board.

The Board meeting was adjourned at 11:14 a.m.

JAVIER ROMERO
President

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary