

Patti's Notes

SDCERS BOARD MEETING APRIL 21, 2006

(Notes are my understanding of what happened. Some information is from SDCERS' monthly Board packets available at the back of SDCERS' meeting room, and at the SDCERS' reception desk.

TOPICS: Work goes to Committees. General Legal Officer position adds Compliance to duties. IRS reviews SDCERS for compliance. For the Port, a problem separating their liabilities from the City's liabilities. New Administrator selected. Selecting the Board's capital investment policy.)

Present: Prevolos, Lamberth, Sullivan, Murray, Flynn, Hebrank, Meyer, Thomson, Sheffler, Kipperman, plus new members- Peter Q. Davis and V. Wayne Kennedy.

General Counsel: Roxanne Story Parks

Outside Fiduciary Counsel: Harvey Leiderman of Steefel, Levitt and Weiss

MORNING SESSION 8:30A.M.

OPERATIONS

DISABILITIES

Thomson expressed concern for those applicants rejected for disability retirements, yet the City has not taken back for work.

The Board voted 12-0 to hire a paralegal on a project basis until that permanent slot at SDCERS could be filled.

NAVIGANT REPORT COMMITTEE- Mark Sullivan-Chair

Outside attorney, Amanda Massucci, addressed the Navigant Report recommendations and prioritized the issues:

- 1) Ethical standards at the top.
- 2) Tax-compliance.
- 3) Actuarial soundness and financial management.

RE-INSTATEMENT OF COMMITTEES

The Board voted 11 -0 (Kennedy abstained) to approve the structure of the committees (listed below), the scope of committees was not voted on.

Prevolos' plan re-instated the Committee structure that had been set aside last year in order for the many new Board members to deal with significant issues as one group. Prevolos proposed modifications from the old committee structure in a letter, addressed to Sullivan's Navigant Report Committee, dated April 19, 2006. It had been discussed at that committee.

Executive Committee is Chaired by President Prevolos, Meyer is the Vice-President, Mark Sullivan (Chair of Business and Governance), Hebrank (Chair of Investment) and Sheffler (Chair of Disability). This committee will absorb the Performance and Advisory Committee. Expand responsibilities to include:

- Development of the performance review plan for the Administrator and General Counsel.
- Evaluate and review of the Administrator's and General Counsel's performance and compensation for consistency with their performance review plans.
- Inclusion of the General Counsel in the Executive Committee's meetings with the Retirement Administrator.

Business and Governance Committee will consolidate the Rules Committee, the old Business and Procedures Committee, and the Health Advisory Committee's responsibility for review of retiree health issues. Members: Mark Sullivan, Chair; Kipperman, Flynn and Kennedy. They will meet the Thursday morning before the regularly scheduled Board meeting on the 3rd Friday of the month. Responsibilities are expanded to include:

- Board effectiveness assessment for incoming and outgoing members.

- Orientation and on-going training for new Board members.
- Evaluation and appointment of independent non-Board candidates for the Audit Committee.
- Annual review of actuarial valuation reports.

COMMENTS: Steve Meyer, the most experienced SDCERS Board member and Vice-President of the Board, expressed concern about "so much in one pot". He asked if this was too much centralized control. "But will it work?" he said. It seemed too much in one basket and covered the lion's share of what SDCERS Board does. He said the Board Rules must be changed, etc. What happened to the idea of splitting up the work, he added. Sullivan responded that issues could be brought back to the Board over time.

Investment Committee is chaired by Hebrank, with Murray as Vice-Chair with other members Sheffler, Meyer and Davis. The Real Estate Committee and Proxy Committee will be absorbed by the Investment Committee. They will meet on the Thursday afternoon before the 3rd Friday of the month.

Audit Committee is new and will consist of three outside independent representatives and two Board members. The Chair will be appointed by the Board. The Vice-Chair is Kipperman. The Board's Vice-President, currently Meyer, is the second Board member. The last two slots will be appointed by the Board, via Board suggestions. They meet Quarterly, on the Wednesday afternoon before the 3rd Friday of the month, in Jan. Apr. July and Oct.

COMMENTS: Preovolos asked Board members to give Rebecca Wilson, SDCERS' Communication Specialist, names and contact information of potential outside independent Audit members so she could set up interviews between June and July. Peter Q. Davis asked they be interviewed by the Board regarding ethics, because they would meet with CPAs, attorneys, etc. Meyer and Davis asked if the scope of the new Audit members was defined yet. There were questions of liability and fiduciary responsibility. Meyer asked for a Board Rule package. Preovolos appeared to resolve the issue by stating that the issue, for the responsibility of hiring, stays with the Board.

Disability Committee is chaired by Sheffler with members Thomson, Lamberth and Davis. They meet on the first Friday of the month.

Ad-Hoc Navigant Report Committee is chaired by Sullivan with members Hebrank, Kipperman, Sheffler, and Kennedy. It has calendar dates of May 10, June 14, and July 12, all Wednesday afternoons at 1:00pm, two weeks before the 3rd Friday of the month.

Health Care Advisory Committee will become the responsibility of the City Council. Administrative issues will go the Business and Governance Committee. Flynn said that he recognized the City is now picking up health care costs and it is important that SDCERS stay involved with the Care Council contract for retirees, in the transition of the City picking up administration costs for health care.

#### TRUSTEE TRAINING & EDUCATION

Sullivan reported his Navigant Report Committee had approved, by vote of 5-0 the guideline, 50 hours of training a year. The old, existing rules say Board members should attend two sessions a year.

Preovolos felt strongly that stakeholders, in SDCERS, be included in Leiderman's training of new Board members. Preovolos said that the public is often confused about what the Board does, and they need to be included as a nice gesture. Kipperman asked staff for early notification, at least 6 month notice in advance, for national training seminars.

Davis was concerned about the possibility of a Board member being sued if he failed to attend 50 hours in a year. Leiderman said this was what Board members might anticipate, not a requirement and easily satisfied in a weekend course. Davis requested, "Let not burden ourselves with a figure...." Flynn noted there was a duty to become a prudent person, in the

fiduciary sense and asked that training sessions be kept small. The new official recommendation will be the product of the Business and Governance Committee according to Sullivan and Preovolos. The Board passed the concept by 12 -0.

#### STRATEGIC PLANNING

Strategic planning had been discontinued in the past few years.

Development of an annual strategic planning session was approved 5-0 at the committee level and 12-0 at the Board level.

#### NEW REPORTING RELATIONSHIPS TO THE BOARD

Harvey Leiderman, outside fiduciary council, presented several ideas for the Board to act on, or not:

1) The General Legal Officer would also be the new (Ethical Watchdog) Compliance Officer, and report directly to the Board and no longer directly to the Administrator, but would work with the Administrator.

COMMENT: Meyer asked where the details were, how did they apply and would there be conflicts between the Compliance Officer and the Auditor? Sullivan said this was to ensure past conflicts would not re-occur in the future, direct reporting to the Board was important, and the Compliance Officer would be obligated to bring ethical issues to the Board, putting the responsibilities squarely on individuals. Sheffler said it was important for the Board to remain vigilant. The Board approved adding Compliance Officer to the General Council's job description.

2) Putting the Independent Chief Investment Officer into a direct reporting relationship to the Board was not approved. McCalla measured the idea of reporting directly to the Board and said that one the advantages to the current structure, in which he reports to the Administrator, was his ability to focus only on making money, and not be distracted by Board members' pressures to consider pet investments. Preovolos thought the new Administrator would be discouraged from taking the Administrator position without the Chief Investment Officer directly reporting. Murray was concerned that if the market drops, the investment officer will be subject to attack and as 70% of pensions come from investments, Murray would like a presentation/discussion of the CFO reporting directly to the Board. Preovolos deferred this to the afternoon. Several Board members expressed their concern that they are only at SDCERS once a month and how would they supervise the CFO.

3) A new Internal Auditor to report to the Audit Committee, which will report to the Board was approved 12-0. Meyer inquired about the budgeting for new staff. Preovolos responded that the supervision would be dealt with by the Business and Governance Committee. Kennedy stressed the importance of job descriptions to avoid conflicts and especially to specify what the reporting structure was. Bob Wilson, Assistant Administrator, said that the new Audit Committee needs support and SDCERS is no longer contracting out to the City for auditing services.

#### STATUS REPORT ON ORDINANCES SUBMITTED TO THE CITY

Roxanne Story Parks reported the three ordinances were combined into one.

They are to comply with Federal Tax law, California law:

- Tax Compliance Ordinance (technical amendments).
- Domestic Partners
- Gleason Settlement Ordinance
- Resolution Clarifying Eligibility of Certain Beneficiaries to Corbett Retiree Benefits.
- Technical Corrections Ordinance.

Preovolos met with President of the Council, Scott Peters, who is reviewing the ordinances, but not yet docketed them. At Donna Frye's request, the ordinances will be sent to each council member, but Preovolos explained this was not to go around Peters, it was understood that protocol was important.

#### IRS VOLUNTARY COMPLIANCE PROGRAM-

Federal Tax attorneys, Ice Miller first showed SDCERS a road map for the compliance review process in March 2005. The first filing, for presidential leave, was July 2005. There have been additional filing since then. Health Insurance will be a supplementary filing. The IRS is also reviewing the Navigant Report.

Presidential Leave: IRS has said to keep the past contributions toward Presidential Leave and suspend any new contributions to SDCERS. They are assessing the City with any liabilities in the Presidential Leave settlement.

Round 2: Focus on new corrective procedures to 401(a)(9) Minimum Distribution Rules, 401(a)(17)-Compensation Limits, and 401(a)(31) Eligible Rollover Distributions. Still have DROP and Disability Benefit Calculations 401(a)(1), etc. Need to file in May-June 2006 and Ice Miller thinks the end of Round 2 is coming into sight.

Round 3 and 4 will answer the question: Was the operation in compliance with plan documents? The use, of the pension funds, is only for benefits of members.

There are three possible violations-

- 1) Overpayment of Corbett Settlement and Presidential Leave.
- 2) Payments of health benefits from pension assets.
- 3) Administration costs of health benefits from pension assets.

Additional issues: Use of "surplus distributions".

The Board will be meeting with staff and Cheiron for funding consequences and go over Ice Miller's understanding of the IRS, etc. Ice Miller will review a final draft to the Board, along with a discussion of plan qualifications and IRS remedies. The Board will be asked for approval of remedies, etc. Ice Miller will have a subsequent meeting with the IRS to discuss impact on plan qualifications and remedies.

Sheffler inquired into the failure to give rollover notice, disability relative to Corbett, and 415m monitoring limit on benefits as the Municipal Code regarding "excess benefit". Ice Miller wants to do a trust to support excess benefits.

David Arce, SDCERS staff, presented a report on retirement benefits for the three Union Presidents:

James Farrar and Gary Collins- The POA under contributed for Collins and Farrar. SDCERS can do a miscalculation contract and collect from them individually, or not count salary for that period of time (less service time). David will be meeting with them face to face regarding their decisions.

Judith Italiano- Her case is more complex and is still under review.

COMMENTS: Meyer and Flynn thought this was comprehensive from the start, but Ice Miller and Preovolos thought that it was only for Presidential Leave initially. Other issues will bring this VCP to a comprehensive review of a number of other sections. May and June 2006 should be the last batch of filings.

Transfer of assets for some Purchase of Service Credits were not complete.

In response to Hebrank's question, Ice Miller said healthcare administration costs could be billed to the plan sponsor and Cheiron would recommend options. Preovolos added that the IRS may have penalties. Also, the submission of a VCP for a specific issue does not preclude the IRS from looking at everything. He expected the Board would continue to hear of these issues beyond May and June 2006. Preovolos requested General Council to be present in negotiations with the IRS for information purposes.

Meyer noted the "attorneys squirming" and requested this issue be continued in Closed Session.

#### BOARD DIRECTION ON REQUEST OF PORT AND AIRPORT AUTHORITY TO ESTABLISH SEPARATE TRUSTS WITHIN A 'GROUP TRUST'

Ice Miller advised that to spin out to a Group Trust, after SDCERS filing as a multiple employer

trust, would mean another round of filings with the IRS. A Group Trust would be like an umbrella over separate trusts. Determination letters for each trust and the umbrella trust would be needed.

COMMENTS: Sheffler said he understands that currently the assets are separate and liabilities are also separate. But in a moment of great pause, Leiderman said that under the existing plan, if City money in SDCERS was used up, that Port and Airport dollars could be used to pay City retirees. There is no wall, he said, as a matter of law, all contributions and earnings are subject to all liabilities. Leiderman added that SDCERS assets are walled off from the City, so the City cannot use pension assets to pay for other liabilities.

Ice Miller said there was historical intent that the assets of one sponsor would not be used to pay for the liabilities of another sponsor. Peter Q. Davis said there was historical review of that intent from his work with the Port Commission. Davis saw that there was an expectation that City employees will see the loss of the Port and Airport as impacting their benefits. In public comment, James Whalen (spelling?) said that it was clear the intent was not to cover SDCERS liabilities and that action is necessary to ensure this. A fourth public speaker said this was a fiduciary duty to all and each member of the Board, as the intention, of the voters and City Council, was not that the Port's assets could be used by the City. He added that historically this is a multiple employer trust already and that the Port was not informed of the Voluntary Compliance Program filing with the IRS.

The Port and Airport would need to take liabilities, if they took assets. There would be costs to all parties involved. Meyer asked if there was a benefit to the trust? What about tax qualification and the administrative impact?

Harvey Leiderman said this was not SDCERS' responsibility to figure this out. Prevolos said the City should have figured this out in the past. Currently, the Port and Airport participate in the liabilities of SDCERS. They know what they have to do to negotiate with the City. Prevolos announced that until the City, Port and Airport come to a conclusion, and the City Council votes on these changes, that SDCERS has finished dealing with it. The Board passed a resolution 12-0, asking the City Council to consider amending the Municipal Code to a Group Trust.

#### PURCHASE SERVICE CREDITS WITH DEFERRED COMP PLAN

Ice Miller initially was negative on the legality of using Deferred Comp to purchase service credits, but the IRS has issued a private letter ruling to another system allowing this. Sullivan verified that the Board was going to vote on what CalPERS continues to do. Meyer noted that only 457b transfers are an issue. Kennedy asked to clarify employee information on what qualifies to pay for purchases of service. So if the IRS blesses it, Roxanne Story Parks recommends changing the Board Rules to allow it.

Allegations of fraud have arisen because members purchasing service have not been told of a insolvency possibility of SDCERS, Sheffler told Ice Miller. What if SDCERS ceases to be a defined benefit plan? Sheffler asked. However, he believes there is enough money in SDCERS to cover purchases of service. The idea was put out that employer contributions are less important than what employees put in, and what employees put in, should be paid out first, as in 457 purchases and employee contributions.

Prevolos took an opposite view from Aguirre on this point and feels that a defined pension benefit plan is a better vehicle and makes more money for members than a 457 vehicle. (Aguirre had compared 100% funded dollars in 457 accounts, under a members' name, to a 60% funded dollar in SDCERS.)

Ice Miller said the IRS wanted to put the 457 ruling in the VCP, rather than a Private Letter Ruling.

Sullivan asked how it was fraud, if you were buying a year of service. Meyer said, if he died, he

would lose the money.  
Passed 11-1, with Davis voting no.

#### SEARCH: CHIEF LEGAL OFFICER (replaces General Counsel)

Roxanne Story Parks left the room as Mary L. Hobson, Executive VP and Managing Director of EFL Associates (a search firm), presented the search contract, not to exceed \$75,000 for a new General Counsel. (EFL Associates was selected via the RFP process.) It would be like the search for a new administrator, work would continue until the position was filled without new costs. Approved 12-0 by the Board.

Hopefully we will have a new Administrator today, Hobson said, adding that some people are intrigued with challenges.

#### ELECTRONIC DOCUMENT MANAGEMENT

Linea Solutions has been working with SDCERS to put members records on-line. They created back-up files, as well as, sharing records simultaneously via an automated workflow system. The company's representative congratulated the staff in taking on the responsibility of this and completing it. It improves accuracy, reliability, etc. Implementation was started last April. Legal and financial documents are being added. Hard copies of the files are off-site now until it is determined they are no longer needed. This is a cultural shift from paper and pencil to computers.

Linea Solutions does not maintain systems and stressed the importance of SDCERS hiring long-term staffing. Linea staff is costly and only does initial projects, so it looks as if they are not done.

#### PRE-RATE PURCHASE OF SERVICE -APPEAL

Jeff Jones appealed to purchase service at the early rate due to his mail not reaching him. He was not present. Previously, there were not enough Board votes to vote this up or down. Flynn reviewed the history of events. Davis inquired into the cost difference. It would be \$39,000 cheaper. Davis asked if Ron Saathoff didn't have this same problem with a late request. Staff answered yes. But, Davis responded, Saathoff worked at the Board! Preovolos said the Board had a time limit on purchase of service contracts. Sullivan questioned Jones' choice of a polygraph method to prove he was telling the truth and continued listing the times that Jones said he called SDCERS, as well as, staff deadlines. Staff said there had been about 15 requests for waivers on the deadlines. Motion to deny failed in a tie of 6-6. So the Board moved to approve at the pre-rate 9-3.

#### CLOSED SESSION 1:35pm to 3:15pm

Discussed anticipated litigation, SDCERS vs City of San Diego, and the Administrator position. No action was taken, according to Preovolos.

#### CONTINUED MORNING SESSION

##### NEW ADMINISTRATOR SELECTED

David B. Wescoe was selected to be the new SDCERS Administer with a 5 year contract, with 5 year renewal, termination is 6 months salary, at \$200,000 year. ( According to the SD Union Tribune he is the Executive Director of Messner & Smith, little more than a block from SDCERS) Sheffler recused from the approving vote and Closed Session on this matter, as he knew Mr. Wescoe.

#### BOARD QUESTIONS AND COMMENTS

References to the story in the San Diego Union Tribune about Fire fighters' brief promotions up to higher pay before entering DROP, and then demotions back to previous positions a year or two after entering DROP. Board Trustee Thomson's name was mentioned as a participant in this and also that he was a Trustee for SDCERS. Aguirre has shown interest in this.

Under the Brown Act it was necessary to have a 2/3 vote by the Board to enable the Board to have a discussion of any new urgent matter if the agenda is already posted. Hebrank moved and

Sheffler seconded. Meyer said he failed to see pending doom from the "wild allegations" and so it was not necessary to discuss this. Was the plan design violated, he asked. Hebrank said to ask fiduciary counsel. Leiderman advised to take a vote before discussion. The motion: To discuss in open session the recent press allegations regarding fire fighters benefits. Four yes, included: Flynn, Hebrank and Sheffler. The other votes split between "no" and "abstain". Motion did not pass.

#### AFTERNOON SESSION AGENDA FINANCE AND INVESTMENT

##### SELECTION OF A CUSTODIAL BANK

Flynn, Chair of the selection committee, presented the committee's recommendation of State Street Bank until 6/30/06.

Decision was based on difficulty for staff to transition to a new bank at this time, current environment to access past and current financial statements, and satisfaction with the current bank. There is a provision for an annual review of State Street's service performance with a 30 day termination clause. Request to approve to extent contract passed 11-0 with Preovolos out of the room.

##### WAIVE REAL ESTATE GUIDELINES- Invesco Group investment

Request by Invesco Group to waive three investment guidelines in order to purchase an apartment house in Orlando, Florida. The area has job growth, in-migration, with the expectation to receive over 9% return on an under priced property. The Board wondered why hurricanes were not considered in the report. It was built in 1989. Was it retro-fitted and up to the new building code? Invesco said there was no damage from past hurricanes, so no information was included in the report. The Board was concerned about due-diligence and possible high insurance costs? Why was the owner selling so low?

Davis asked, why three guidelines need to be waived. This pointed again to the need to review the guidelines. Preovolos asked the staff to return in 30 days with new guidelines. Flynn and Lamberth voted to go with staff's recommendation on this, gather more information and re-consider it in May, but 10 Board members were against re-considering the purchase, even with more information.

##### REAL ESTATE PERFORMANCE- Townsend Group

Matt Johnson appeared calm at 4:00p.m., even if the delays of a day at SDCERS would result in his missing his Friday evening plane.

##### FINANCIAL STATEMENTS FOR SDCERS

Assistant Administrator Bob Wilson said there was new information on "Financial Statement Account Variance Analysis" on employee contributions.

##### UPDATE ON STATUS OF BROWN ARMSTRONG AUDITS FOR THE 2003-2004 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

Data requested by Brown Armstrong will be sent out next Tuesday from SDCERS. Part of the problem was SDCERS staff getting what Brown Armstrong needed. Preovolos said Brown Armstrong was also requesting information from Kroll. What, Preovolos asked, if there is no Kroll report?

Preovolos would like Brown Armstrong here for the May SDCERS Board meeting and the 2003-4 CAFR from them between July and August.

When asked if the SDCERS audit is holding up the City audit, Bob Wilson said the numbers for the 2003-2004 CAFR are ready, outside of Brown Armstrong. Investment staffer, Dawne Clark, said the City will need the 2004-5 CAFR audit for Kroll.

(4:23p.m Peter Q. Davis left.)

#### SDCER'S ASSET ALLOCATION STATUS- Doug McCalla

McCalla was asking the Board to make a policy decision by June's meeting because he was expecting a \$275 million cash infusion (City's annual contribution- ARC) into SDCERS.

Capital Market projections include:

- \* Efficient portfolio: highest return for risk level.
- \* Forward looking expectations: low interest rate, low return, low inflation. This is a challenge to institutional investors.
- \* No significant wage pressures for at least 5 years, which is more important than gas prices (so far only ½% on CPI).
- \* Foreign demand for US bonds continues to keep the dollar up and reinforce foreign demand.
- \* SDCERS expects a return of 7.41% from equity investments with Callan Associates. As it is 63% of the total SDCERS fund investments, it drives SDCERS' investment return.

Is there a need to assume more risk? Because more risk may limit SDCERS ability to bail out of financial losses.

McCalla pulled out his Industrial Psychology background to do a Decision Market Analysis of Board members, in regard to the risk tolerance in competing objectives. It was a sheet of choices to be ranked 1-20, requiring individual votes, re-consideration, and re-voting to show the Board's collective decision

The Board will mail in their first response in provided envelopes. McCalla will put the collective basis of weights in the May Board packet. McCalla and Jim Callahan (who recommends SDCERS's money managers) will see what asset mix will suit the Board collectively at the Investment Committee. The Investment Committee: Hebrank, Murray, Sheffler, Meyer, and Davis will meet on May 18th, Thursday afternoon-verify that with SDCERS' secretary, Donna Hawthorne, 619-525-3655 or email dhawthorne@sandiego.gov

How will the Board make Policy Decisions?

- Board turn-over works against long term results. Performance judged over 3-4 year period has paid off handsomely.
- Remember to maintain maximum safety, integrity and growth. These terms must be defined between Trustees.
- Peer group comparison: SDCERS placed in the top 40% of peers.
- No more than 70% of non-real estate investments can be in equity. SDCERS is conservative by design, he said. To protect capital in down markets, the City Council said if SDCERS invests in 10% real estate, that 63% of the remaining amount can be in equity (which is 70% of the non-real estate assets).
- You may want to approach the City Council about opening up other investment opportunities.
- Currently the assumed rate of return is 8%. ( Assumed inflation and salary growth is 4.25% and 3.75 is the real rate of assumed return.) Inflation and wage growth are expected to be lower than assumed in the current 8%. The goal: to have 1 ½% return over inflation.
- Administration expenses averaged .3%.
- So gross return would be 8.3%.
- If the capital market mix doesn't work, then it throws off long term strategy, because the Board will switch policy direction.
- Those negative economic times will come.
- Expect sizeable cash flows in June and July.

#### TRADING COST ANALYSIS-Jim Callahan of Callan Associates

Commission is smallest cost in trading. Execution costs are higher, because where the money

manager trades, makes a difference. The priority is seeking the most favorable prices on trades (where you shop). Callan looks at where money managers traded and measures the pluses and minuses of execution costs.

When buying large amounts of stock here and there, the stocks price is driven up as you purchase it. There are higher trading costs for smaller volumes of stock purchased.

#### CALLAN DISCLOSURES OF POTENTIAL CONFLICT

While Callan's business will remain money manager evaluation and consulting, a new investment aspect is now part of Callan's business.

Callan will do a co-mingled small cap fund requiring \$200 million to invest. It was born by the need of larger funds. Mr. Callahan is not promoting this and nothing has changed in Callan's business.

#### INVESTMENT DIVISION STATUS REPORT

Pension and administrative costs for March were \$14 million.

Several days ago SDCERS reached a new milestone of \$4.2 billion, with in excess of 14% returns.

Trend indicates SDCERS will hit \$1 billion in securities lending in 2006.

#### EXCLUSIVE BENEFIT/PROHIBITED TRANSACTIONS ISSUE

Open item from the morning session: Board directed Tax Counsel to prepare proposed VCP filing to the IRS for exclusive benefit/prohibited transaction (overpayment of President Leave, administration costs for health and Corbett).

#### LEGAL SERVICES (in Board packet for April)

People of the State of California v. Grissom, et al.

Chapin was dismissed from action, Grissom remains active.

SDCERS v. City & City Attorney, Aguirre (now case GIC851286)

Re-consideration hearing to be held April 28 at 9:00am

City Motion for Summary Judgement to be held June 23 at 9:00 am

Trial to be held Oct. 6, 2006

Depositions taken by City Attorney from Doug McCalla, Dawne Clark. Noticed 'other depositions' including Scott Peters, Toni Atkins, and Jim Madaffer.

#### POA

Hearings on any new motions to dismiss will be held on May 15, 2006

SDCERS v City GIC861125

Asking for fees incurred in the Gleason litigation and the various City investigations on behalf of various former Board members.

City of SD v Loraine Chapin Judge Linda Quinn GIC863096

The City Attorney, in the name of the City, filed a complaint on March 21, 2006 against Ms.

Chapin alleging violation of Government Code section 1090. The City alleges that Ms. Chapin, as a City Attorney, had a conflict of interest when she opined on whether SDCERS was entitled to legal council independent from the City Attorney's Office.

PK/ 5/2/06