City of FRESNO **REPORT TO THE CITY COUNCIL**

AGENDA ITEM NO.	10
COUNCIL MEETING	1/13/09

APPROVED BY

Retirement Administrator

January 13, 2009

FROM: *CITY OF FRESNO RETIREMENT BOARDS*

BY: *STANLEY L. MCDIVITT, Retirement Administrator*
Retirement Office

SUBJECT: *SUBMISSION FOR INFORMATIONAL PURPOSES OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORTS ("CAFR") REGARDING THE FINANCIAL ACTIVITIES OF THE CITY OF FRESNO RETIREMENT SYSTEMS FOR THE FISCAL YEAR ENDING JUNE 30, 2008*

RECOMMENDATION

The Retirement Boards have reviewed and approved the attached Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2008, and recommend that the City Council receive and accept the reports for informational purposes.

EXECUTIVE SUMMARY

The Retirement Boards are proud to submit their June 30, 2008 Comprehensive Annual Financial Reports ("CAFR") to the City Council for informational purposes to keep the City Council informed and provide knowledge of the Retirement Systems' activities from the past fiscal year.

As the two highest funded Public Retirement Systems (**Employees System 142.2% and Fire and Police System 128.5% as of June 30, 2008**) in the State of California, the Systems have continued to achieve outstanding investment returns for the Systems. For the fiscal year ended June 30, 2008, our investment activities returned -6.05 percent; 10.04 percent annualized for the past five years and 6.61 percent annualized over the prior ten years which includes the market correction period from 2001 through 2003 and the beginning of the current capital market corrections in 2008. These excellent investment returns have been achieved by the Boards on a risk controlled basis without the use of higher risk investment vehicles such as hedge funds and private equity.

Additionally, the Trustees at their January 14th Board meeting, will be adopting the following proposed City Normal Pension Contribution rates for **fiscal year 2009-2010**:

System	Total City Rate	Est. City Contributions	Net City Rate
Total Employees Retirement System	**10.62%**	**$14.7 million**	**-0-**
Fire and Police Retirement System Tier 1	26.38%	$6.2 million	
Fire and Police Retirement System Tier 2	18.49%	$14.7 million	
Total Fire and Police System	**20.28%**	**$20.9 million**	**11.74%**
Combined Totals		**$35.6 million**	

Our actuary has estimated total City contributions for fiscal year 2009-2010 at $35.6 million and surplus earnings from the Retirement Systems should offset approximately **$23.5 million**, leaving the City with a net required cash contribution requirement of approximately **$12.1 million** plus any employer pickups of employee contributions per MOU's.

The increase in the net City contribution amount is approximately $4.8 million higher than the prior year and includes an additional 40 safety members and 92 non-safety members for a total of 132 additional employees over the fiscal prior year. In addition to the increase in membership in both Systems, the City's contribution rates were also impacted by slightly higher than expected salary increases in both Systems, higher than expected COLA increases in the Fire and Police System and the effect of anticipated conversion of sick leave benefits from MOU changes impacting final average salaries in the Fire and Police System.

Subsequent Events:

Following June 30, 2008, the global investment markets began experiencing unprecedented turmoil related directly to the restricted availability of capital, the continued write-down of mortgage related assets led initially by defaults in the sub-prime mortgages and the continued sharp decline in the global housing markets. Despite federal intervention the markets continue to suffer significant losses stemming from a general uncertainty about how best to address the expanded global credit crisis and losses that financial institutions are facing.

While it is the opinion of the management of the Retirement System's and the System's actuary that the Systems remain strong, well funded and well positioned to serve our members, the value of the System's assets have been affected by this turbulent global market environment.

As a long term investor, losses of this nature are normal investment risk for pension systems, but will likely affect the funded status of the Systems in the future and directly impact future offsets of the City's required normal pension contributions over the next five years as the losses are actuarially amortized.

Later this fiscal year and hopefully after the investment markets stabilize, the Retirement Boards plan on having their actuary update the prior Surplus Projection Reports to assist the City in their budgetary planning process as well as to provide guidance to retirees and active members as to how they may be impacted.

BACKGROUND

At their December 10, 2008, Retirement Board meeting, the Boards approved the attached Comprehensive Annual Financial Reports ("CAFR") for the fiscal year ended June 30, 2008. At that meeting, the Boards directed the Retirement Administrator to submit each CAFR to the City Council, Mayor and City Manager and to keep the City informed on the activities of the Retirement Systems.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fresno Retirement Systems for each of their Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2007. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. These reports must satisfy both generally accepted accounting principles and applicable legal requirements. The City of Fresno Retirement Boards, which oversee the administration of the Retirement Systems and combined investments of $2.1 billion for the City of Fresno Retirement Systems, respectfully submit the results of their fiscal year 2008 investment earnings and the funding status of the Systems as of June 30, 2008.

For the fiscal year, the Systems' investment returns exceeded their policy benchmarks for the fiscal year. The Systems' achieved an investment return of -6.05 percent for fiscal year ended June 30, 2008, which fell short of the fund's actuarial interest rate assumption of 8.25 percent by 14.3 percent. Our investment results remain solid with annualized returns in excess of 10 percent consistently over the past five years. The System's ten-year annualized returns have averaged 6.61 percent exceeding its policy benchmarks for the period by .17 percent.

As of June 30, 2008, the Systems remain strong and well funded with an actuarial funding status of 142.2 percent for the Employees Retirement System and 128.5 percent for the Fire and Police Retirement System. The Boards continue to demonstrate their commitment to our membership, ensuring that participants' future retirements are realized through the protection and efficient administration of the Systems.

The Comprehensive Annual Financial Reports ("CAFR") of the City of Fresno Retirement Systems for the years ended June 30, 2008 and 2007 are submitted herewith. Information contained in these reports are designed to provide a complete and accurate review of the year's operations. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the Systems. For a general overview of the Systems' finances, please refer to Management's Discussion and Analysis letter in the Financial Section of the reports.

In addition to the information in the CAFR reports, I have prepared the attached schedule of summary information on the City's Retirement Systems. These documents are intended to provide Councilmembers with an overview of the Systems. For a summary of major provisions and benefits of the retirement plans, see pages ix and x in the Introductory Section of the attached Financial Reports.

The Financial Reports were prepared as of June 30, 2008, and consist of six sections:

1. The **Introductory Section** describes the Systems' management and organizational structure, a summary of the plan provisions and a listing of the professional services providers; and

2. The **Financial Section** contains the general purpose financial statements of the Systems and the Independent Auditor's Opinion Letter; and

3. The **Investment Section** includes a letter from the Systems' investment consultant, Wilshire Associates, recapping the fiscal year investment results and activities, along with performance and asset allocation information; and

4. The **Actuarial Section** includes the certification letter produced by the independent actuary, The Segal Company, along with supporting schedules and information; and

5. The **Statistical Section** which includes trend information and graphs; and

6. The **Compliance Section** which includes the Independent Auditor's Internal Control Letter.

Attachments:

1. *Comprehensive Annual Financial Reports for the Employees and Fire and Police Retirement Systems for the years ending June 30, 2008 and 2007.*

2. *Summary Highlights for Fiscal Year 2008*

CITY OF FRESNO R. .REMENT SYSTEMS
SUMMARY HIGHLIGHTS FOR FISCAL YEAR 2008

Description	Fire & Police System FY 2008	Employees System FY 2008	Combined Systems Totals FY 2008		Combined Systems Totals FY 2007	Net Change
Net Assets Held in Trust for Benefits	$ 1,088,054,423	$ 969,030,584	$ 2,057,085,007		$2,262,257,679	-9.07%
Net increase in Assets	$ (105,343,910)	$ (99,828,762)	$ (205,172,672)		271,650,805	-175.53%
Retirement Benefits Payments	$ 42,949,880	$ 35,357,509	$ 78,307,389		77,631,166	0.87%
Annualized Investment Returns:						
One Year Performance			-6.05%		17.36%	
Three Years Performance			7.33%		13.43%	
Five Years Performance			10.04%		12.37%	
Ten Years Performance			6.61%		9.26%	
Asset Allocation Targets:						
Domestic Equities- Large Cap			30.00%		30.00%	
Domestic Equities-Small Cap			10.00%		10.00%	
International Equities			17.00%		17.00%	
Emerging Market Equities			3.00%		3.00%	
Total Equities			60.00%		60.00%	
Domestic Fixed Income			25.00%		25.00%	
High Yield Bonds			5.00%		5.00%	
Real Estate			10.00%		10.00%	
Total Fixed Income & Real Estate			40.00%		40.00%	
Total Asset Allocation			100.00%		100.00%	
Membership:						
Active	1,182	2,515	3,697		3,565	3.70%
Retired	854	1,363	2,217		2,132	3.99%
Inactive Deferred Vested	67	192	259		257	0.78%
Totals	2,103	4,070	6,173		5,954	3.68%
Member Contributions	$ 6,788,227	$ 5,665,627	$ 12,453,854		10,487,714	18.75%
Actuarial Funding Staus (GASB 25)	128.5%	142.2%			129.5/146.8	-0.8%/-3.1%
City Normal Contribution rates:					Effective 7/1/07	
Fire and Police Tier 1 Effective July 1, 2008 (FY 2009)	25.25%		19.44%		25.66%	-1.60%
Fire and Police Tier 2 Effective July 1, 2008 (FY 2009)	17.34%		19.44%		16.28%	6.51%
Employees System Effective July 1, 2008 (FY 2009)		10.56%	10.56%		10.93%	-3.39%