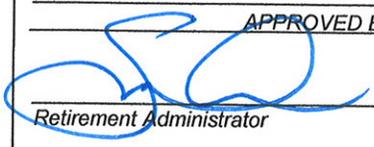


AGENDA ITEM NO. 1 G
COUNCIL MEETING 1/26/2012

APPROVED BY


Retirement Administrator

January 26, 2012

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, 2011

RECOMMENDATION

The Retirement Boards have reviewed and approved the attached Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2011, and recommend that the City Council receive and accept the reports for informational purposes.

SUMMARY

The Retirement Boards are proud to submit their June 30, 2011 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.

System's Funding Status

As the **two highest funded Public Retirement Systems** (City of Fresno Employees Retirement System **116.8%** and City of Fresno Fire and Police Retirement System **111.4%** as of June 30, 2011 on an actuarial basis) in the State of California, the Systems have continued to achieve favourable investment returns for the Systems when compared to other institutional investors. In addition, measuring the funding ratio as of June 30, 2011, using the market value of assets instead of the valuation value of assets the Employees System's funding ratio is **114.9%** which reflects a significant increase from the prior year market value funding ratio of 99.1%; the Fire and Police System's market value funding ratio is **109.9%**, also a very significant increase from the prior year's ratio of 89.2%.

Investment Return Information

For the fiscal year ended June 30, 2011, our investment activities returned **24.26** percent; 4.70 percent annualized for the past five years and 7.74 percent annualized over the prior fifteen years which includes both market correction periods from 2001 through 2003 and the current global capital market recession which began in 2008. For the past twenty-five years our annualized return was 8.86 percent per year as of June 30, 2011. 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.

System Membership Activity

Membership in the Retirement Systems has declined substantially since June 30, 2009. Over the two-year period ending June 30, 2011, active membership has been reduced by a net of 592 participants from a total of 3,669 to 3,077 as of June 30, 2011. The number of retirees has also increased sharply adding 277 retirees for a total combined retired membership of 2,544 at June 30, 2011.

Over the past three fiscal years, beginning July 1, 2008, the active membership of both Systems has declined by a net of 620 participants (16.77%), from 3,697 to 3,077. The Fire and Police Retirement System's active membership has been reduced by a net of 94 participants since June 30, 2008; while the Employees Retirement System's active membership has been reduced by a net of 526 participants over the same three-year period. The total number of retirees for both systems has increased a total of 327 from 2,217 to 2,544; adding a net of 84 retirees to the Fire and Police Retirement System and 243 retirees to the Employees Retirement System over the three-year period ended June 30, 2011. This dramatic membership activity has significantly impacted the workload of the Retirement Office staff and increased the number of employees seeking Retirement counselling as well as the processing of retirees and refunds to non-vested participants.

Retirement Board Adopted City Actuarial Rates for Fiscal Year 2012-13

Additionally, the Retirement Boards at their December 14th Board meeting, adopted the following City Normal Pension Contribution rates for Fiscal Year 2012-2013:

<u>System</u>	<u>Net City Rate</u>
Employees Retirement System	12.36%
Blended Fire and Police System	19.84%

The blended Fire and Police System rate of 19.84% is a significant reduction of 4.1% from the current fiscal year 2012 City contribution rate of 23.94% and should reduce the City's payments to the Fire and Police System by approximately \$4 million.

The net City contribution rate of 12.36% for the Employees System is an increase of 2.15% over the current fiscal year 2012 net rate of 10.21%. The projected increase is approximately \$2.5 million for fiscal year 2013, however the net City rate should return to approximately 10.70% in the following fiscal year. The fiscal year 2013 contribution increase in the Employees System will be spread across the various Enterprise Funds, Internal Service Funds and include a small portion to the General Fund. In addition, Employees member contributions will increase as a result of the COLA contribution no longer being offset by actuarial surplus. Therefore, Employees System member contribution rates will increase 2.84% from an average contribution rate of 5.53% to 8.37%, an annual average increase per member of approximately \$1,675; and a total additional member contribution of approximately \$3.3 million for fiscal year 2013.

CAFR Information

At their December 14, 2011, Retirement Board meeting, the Boards approved the attached Comprehensive Annual Financial Reports ("CAFR") for the fiscal year ended June 30, 2011. 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, 2010. 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 2011 investment earnings and the funding status of the Systems as of June 30, 2011.

The Comprehensive Annual Financial Reports ("CAFR") of the City of Fresno Retirement Systems for the years ended June 30, 2011 and 2010 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 Council members 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, 2011, 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.

slm/1/9/2012

Attachments:

1. *Summary Highlights for Fiscal Year 2011*
2. *Comprehensive Annual Financial Reports for the Employees and Fire and Police Retirement Systems for the years ending June 30, 2011 and 2010.*

**CITY OF FRESNO RETIREMENT SYSTEMS
SUMMARY HIGHLIGHTS FOR FISCAL YEAR 2011**

Description	Fire & Police System FY 2011	Employees System FY 2011	Combined Systems Totals FY 2011	Combined Systems Totals FY 2010	Net Change FY2011	Combined Systems Totals FY 2009	Net Change FY2010	Combined Systems Totals FY 2008	Net Change FY2009
Net Assets Held in Trust for Benefits	\$ 1,109,211,576	\$ 964,376,504	\$ 2,073,588,080	\$1,725,216,996	20.19%	\$1,568,306,577	10.01%	\$2,057,085,007	-23.76%
Net increase (decrease) in Assets	\$ 190,565,450	\$ 157,805,634	\$ 348,371,084	156,910,419		(488,778,430)		(205,172,672)	
Retirement Benefits Payments	\$ 50,556,250	\$ 41,487,860	\$ 92,044,110	89,585,020	2.74%	86,055,862	4.10%	78,307,389	9.89%
Annualized Investment Returns:									
One Year Performance			24.26%	14.80%		-20.12%		-6.05%	
Three Years Performance			4.50%	-4.85%		-4.14%		7.33%	
Five Year Performance			4.70%	2.54%		1.84%		10.04%	
Ten Year Performance			6.11%	3.31%		3.02%		6.61%	
Fifteen Year Performance			7.74%	7.41%		7.70%			
Twenty-Five Year Performance			8.86%	9.19%		8.96%			
Asset Allocation Targets:									
Domestic Equities- Large Cap			22.50%	22.50%		22.50%		30.00%	
Domestic Equities-Small Cap			7.50%	7.50%		7.50%		10.00%	
International Equities			22.80%	25.00%		25.00%		17.00%	
Emerging Market Equities			7.20%	5.00%		5.00%		3.00%	
Total Equities			60.00%	60.00%		60.00%		60.00%	
Domestic Fixed Income			25.00%	25.00%		25.00%		25.00%	
High Yield Bonds			5.00%	5.00%		5.00%		5.00%	
Real Estate			10.00%	10.00%		10.00%		10.00%	
Total Fixed Income & Real Estate			40.00%	40.00%		40.00%		40.00%	
Total Asset Allocation			100.00%	100.00%		100.00%		100.00%	
Membership:									
Active	1,078	1,999	3,077	3,418	-9.98%	3,669	-6.84%	3,697	-0.76%
Retired	938	1,606	2,544	2,405	5.78%	2,267	6.09%	2,217	2.26%
Inactive Deferred Vested	47	206	253	232	9.05%	251	-7.57%	259	-3.09%
Totals	2,063	3,811	5,874	6,055	-2.99%	6,187	-2.13%	6,173	0.23%
Member Contributions	\$ 7,304,036	\$ 5,275,219	\$ 12,579,255	12,912,762	-2.58%	13,017,402	-0.80%	12,453,854	4.53%
Actuarial Funding Staus (GASB 25)	111.4%	116.8%		110.8/122.5	0.6%/ -5.7%	119.6/133.9	-7.4%/ -8.5%	128.5/142.2	-8.9%/ -8.3%
City Normal Contribution rates:									
Fire and Police Tier 1	Member 4.87%	Member	City 26.46%	City 26.38%		City 25.25%		City 25.66%	
Fire and Police Tier 2	9.00%		18.60%	18.49%		17.34%		16.28%	
Employees System		5.03%	11.09%	10.62%		10.56%		10.93%	