

REPORT TO THE CITY COUNCIL

FROM: CITY OF FRESNO RETIREMENT BOARDS

BY: ROBERT T. THELLER, Retirement Administrator
City of Fresno Retirement Office

SUBJECT

..Title

Submission for informational purposes the Annual Comprehensive Financial Reports (“ACFR”) regarding the financial activities of the City of Fresno Retirement Systems for the Fiscal Year ending June 30, 2025

..Body

RECOMMENDATION

The Retirement Boards have reviewed and approved the attached Annual Comprehensive Financial Reports for the fiscal year ended June 30, 2025, and recommend that the City Council receive and accept the reports for informational purposes.

EXECUTIVE SUMMARY

The Retirement Boards are pleased to submit the Annual Comprehensive Financial Reports (“ACFR”) for the fiscal year ended June 30, 2025, to the City Council for informational purposes to keep the City Council informed and provide knowledge of the Retirement Systems’ activities during the past fiscal year.

BACKGROUND

ACFR Information

The Retirement Boards, at their meeting on January 14, 2026, approved the attached Annual Comprehensive Financial Reports (“ACFR”) for the fiscal year ended June 30, 2025. At that meeting, the Boards directed the Retirement Administrator to submit each ACFR 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 Annual Comprehensive Financial Reports for the fiscal year ended June 30, 2024. To receive a Certificate of Achievement award, a government must publish an easily readable and efficiently organized annual comprehensive financial report. These reports must satisfy both generally accepted accounting principles and applicable legal requirements.

The two City of Fresno Retirement Boards, which oversee the administration of the Retirement Systems and combined investments of ~\$4.37 billion as of June 30, 2025, respectfully submit the results of their fiscal year 2025 investment earnings and the actuarial funding status of the Systems.

The Annual Comprehensive Financial Reports ("ACFR") of the City of Fresno Retirement Systems for the years ended June 30, 2025, and 2024 are submitted herewith. Information contained within these reports provides 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 ACFR reports.

In addition to the information in the ACFR reports, we have prepared the attached ACFR Highlights which summarizes information on the City's Retirement Systems. These documents provide Council members with an overview of the Systems. For a summary of major initiatives of the retirement plans, refer to pages iv and v in the Introductory Section of the attached ACFR Reports.

The ACFR Reports were prepared as of June 30, 2025, 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.
2. The Financial Section contains the general-purpose financial statements of the Systems and the Independent Auditor's Opinion Letter.
3. The Investment Section includes a letter from the Systems' investment consultant, NEPC, recapping the fiscal year investment results and activities, along with performance and asset allocation information.
4. The Actuarial Section includes the certification letter produced by the independent actuary, The Segal Company, along with supporting schedules and information.
5. The Statistical Section which includes trend information and graphs.
6. The Compliance Section which includes the Independent Auditor's Internal Control Letter.

For the year ended June 30, 2025, the Boards adopted and implemented all applicable new Government Accounting Standards Board (GASB) pronouncements for the fiscal year ended June 30, 2025, as required by each statement.

Systems' Funding Status

The contribution rate is derived from each System's "normal cost," which is the amount the Retirement Systems' actuary has determined is necessary to fund the retirement benefits that members are currently accruing for a single year of service, under the terms of the City of Fresno Municipal Code. It is designed to fund the system to 100% of its funding needs and not above that level. When developing the contribution rates for FY2027, the FY2025 Actuarial Report prepared by the actuary incorporates adjustments made to reflect the actual impact for FY2025 and the estimated impact for FY2026 of the City's refusal to implement the updated contribution rates for both employer and the active members (current City employees) of the Employees Retirement system, and the City's refusal to implement the updated employer contribution rates for the Fire and Police Retirement System. Generally speaking, the actuarially determined contribution rate may be lower than the System's normal cost if there is sufficient surplus as defined by the City of Fresno Municipal Code to offset the normal cost.

The City's refusal to contribute the full actuarially determined employer contribution rates to either the Employees Retirement System or the Fire and Police Retirement System, as well as the Employees Retirement System member contribution rates for FY2026, will affect each System's future funding status in the FY2026 Actuarial Report. As of this writing, outstanding investment returns have kept both systems in a strong funded status despite the City's underpayment of the required contributions.

Continued favorable investment returns cannot be relied upon to make up for the shortfall in the City's contributions given the uncertainty of the investment return environment.

If measured on a market value of assets basis, the funding status of the City of Fresno Employees Retirement Systems is 118.6%, and the City of Fresno Fire and Police Retirement System is 120.9%. The Systems have continued to achieve favorable investment returns during volatile investment markets.

Retirement Board Adopted City Actuarially Determined Rates for Fiscal Year 2026

The Retirement Boards, at their Board meetings on November 25, 2025, adopted the following employer actuarially determined contribution (ADC) rates for Fiscal Year 2027:

	ACFR FY 2025	ADC Not Implemented	
		Current FY 2026	Adopted FY 2027
Employees Retirement System	13.38%	13.94%	16.75%
Actual/Est. City Contributions (In Thousands)	\$31,558	\$36,309	\$43,643
Fire and Police Retirement System	21.08%	23.31%	28.46%
Actual/Est. City Contributions (In Thousands)	\$31,779	\$38,346	\$46,331

Again, the adopted contribution rates for FY2027 incorporate adjustments made to reflect the actual impact of FY2025 and the estimated impact of FY2026 contribution shortfalls.

City of Fresno Employees Retirement System

The actuarially determined employer contribution rate for fiscal year 2027 is 16.75%, an increase of 2.81% from the fiscal year 2026 actuarially determined contribution rate of 13.94%. The fiscal year 2026 actuarially determined contribution rate did not include any surplus credits, as the System's funded status of 109.8% as of June 30, 2024, did not meet the surplus declaration requirement of assets on an actuarial basis exceeding 110% of the actuarial accrued liability.

The fiscal year 2027 actuarially determined contribution rate was net of applicable surplus credits, due to the Employees Retirement System's 114.0% surplus status as of June 30, 2025 measured using smoothed value of assets basis. The contribution shortfall exceeded the applied surplus due to the contribution rates not being implemented for both FY2025 and FY2026, resulting in an overall increase in the contribution rate for fiscal year 2027.

The City's fiscal year 2026 implemented rate of 13.38% is 0.56% below the actuarially determined contribution rate of 13.94%. The actuarially determined contribution rate for fiscal year 2027 (16.75%) represents an increase of 3.37% when compared to the City's implemented contribution rate for fiscal year 2026 of 13.38%.

City of Fresno Fire and Police System

The blended Fire and Police System rate of 28.46% for fiscal year 2027 is an increase of 5.15% from the actuarially determined contribution rate of 23.31% for fiscal year 2026. Due to the current surplus funding status, the fiscal year 2027 actuarially determined contribution rate of 28.46% is net of 2.59% in surplus credits which amount to approximately \$4.2 million in City contribution savings for the fiscal

year 2027. This surplus was exceeded by the contribution shortfall due to the non-implemented contribution rates for both FY2025 and FY2026 causing the overall increase in the contribution rate.

The actuarially determined contribution rate for fiscal year 2027 (28.46%) represents an increase of 7.38% when compared to the City's implemented contribution rate for fiscal year 2026 of 21.08%. The fiscal year 2026 implemented rate is 2.23% below the actuarially determined rate of 23.31%.

Investment Return Information

For the fiscal year ended June 30, 2025, the Systems' annual return is 11.08% gross of fees; three-year return is 10.48%, five-year return is 10.36%, and ten-year return is 8.27%.

It is of utmost importance to examine the Systems' investment returns with a long-term view due to the extreme volatility in the various economies of the world and the global financial markets over the past twenty to twenty-five years (and anticipated continued volatility) rather than a short-term focus which tends to distort the perception of how well the investments have performed. The short and long-term (one, three, five, ten, fifteen, twenty and twenty-five year) performance rates demonstrate the extreme volatility of the markets and the Systems' ability to meet or exceed its current actuarial assumed rate of return of 6.75% over longer periods. As of June 30, 2025, the Systems' 20-year annualized return is 7.57%, and its 25-year annualized return is 6.87%.

These investment returns were achieved by the Boards on a risk-controlled basis without the use of higher risk investment vehicles such as hedge funds. *See Attachment 1 – Fiscal Year Total Fund Annual Returns.*

System Membership Activity

Membership activity in the Retirement Systems during the fiscal year resulted in a total net addition of 78 members; the Employees Retirement System active membership increased by 85 members and the Fire and Police Retirement System active membership decreased by 7 members for the one-year period ended June 30, 2025.

The number of retirees has also increased slightly with the Systems' adding a net total of 67 retirees for a total combined retired membership of 3,590 on June 30, 2025. *See Attachments 2 and 3 – History of the Systems Active Members and Retirees*

ENVIRONMENTAL FINDINGS

N/A

LOCAL PREFERENCE

N/A

FISCAL IMPACT

No fiscal impact.

Attachments:

1. Fiscal Year Total Fund Annual Returns
2. History of Employees Retirement System Active Members and Retirees
3. History of Fire and Police Retirement System Active Members and Retirees
4. Summary Highlights for Fiscal Year 2025
5. Annual Comprehensive Financial Report for the Employees Retirement System for the years ending June 30, 2025 and 2024
6. Annual Comprehensive Financial Report for the Fire and Police Retirement System for the years ending June 30, 2025 and 2024