



Legislation Details (With Text)

File #: 18-0060 **Version:** 1 **Name:** 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, 2017

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Title: 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, 2017.

Sponsors: Retirement Department

Indexes:

Code sections:

Attachments: 1. CAFR Highlights 06302017.pdf, 2. Employees Retirement System - FY2017 CAFR--sig.pdf, 3. Fire Police Retirement System - FY2017 CAFR-sig.pdf

Date	Ver.	Action By	Action	Result
1/25/2018	1	City Council	approved	Pass

REPORT TO THE CITY COUNCIL

January 25, 2018

FROM: CITY OF FRESNO RETIREMENT BOARDS

BY: ROBERT T. THELLER, 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, 2017.

RECOMMENDATION

The Retirement Boards have reviewed and approved the attached Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2017 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, 2017 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 during the past fiscal year.

BACKGROUND

CAFR Information

At their December 13, 2017 Retirement Board meeting, the Boards approved the attached Comprehensive Annual Financial Reports ("CAFR") for the fiscal year ended June 30, 2017. 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, 2016. 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 two City of Fresno Retirement Boards, which oversee the administration of the Retirement Systems and combined investments of \$2.8 billion as of June 30, 2017, respectfully submit the results of their fiscal year 2017 investment earnings and the funding status of the Systems.

The Comprehensive Annual Financial Reports ("CAFR") of the City of Fresno Retirement Systems for the years ended June 30, 2017 and 2016 are submitted herewith. Information contained in these reports is 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 initiatives of the retirement plans, see pages iv, v and vi in the Introductory Section of the attached Financial Reports.

The Financial Reports were prepared as of June 30, 2017, 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, NEPC, 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.

For the year ended June 30, 2016, the Boards implemented all applicable new Government Accounting Standards Board (GASB) pronouncements in the fiscal years ended June 30, 2017, as required by each statement. The most recent pronouncement, effective for fiscal year ended June 30, 2017, is GASB Statement No. 82 (GASB 82) *Pension Issues-an Amendment of GASB Statements No. 67, No. 68 and No. 73*, this statement is effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. There was no material impact on the Systems’ financial statements as a result of the implementation of GASB Statement No. 82.

Systems’ Funding Status

As the two highest funded Public Retirement Systems (City of Fresno Fire and Police Retirement System 119.8% and the City of Fresno Employees Retirement System 113.0% as of June 30, 2016 on an actuarial basis and *if measured on a market value of assets basis* the City of Fresno Fire and Police Retirement System 121.2% and the City of Fresno Employees Retirement System 114.3%) in the State of California, the Systems have continued to achieve favourable investment returns for the Systems when compared to other institutional investors.

Retirement Board Adopted City Actuarial Rates for Fiscal Year 2019

Additionally, the Retirement Boards at their Board meeting November 28, 2017, adopted the following City Normal Pension Contribution rates for Fiscal Year 2019:

<u>System</u>	CAFR FY 2017	Current FY 2018	Adopted FY2019
Employees Retirement System	12.77%	11.39%	10.58%
Actual/Est. City Normal Contributions (In Thousands)	\$15,205	\$14,844	\$13,790
Fire and Police System (Blended Tiers)	19.02%	18.92%	18.72%
Actual/Est. City Normal Contributions (In Thousands)	\$18,543	\$20,107	\$19,898

City of Fresno Employees Retirement System

The net City contribution rate for fiscal year 2019, of 10.58%, for the Employees System is a decrease of 0.81% over the current fiscal year 2018 net rate of 11.39%. This decrease is the net result of (i) the difference between the actual and the estimated 2017/2018 fiscal year contributions, (ii) an increase in the surplus available to pay employer COLA contributions, and (iii) changes in membership demographics among all active (DROP and non-DROP) members.

The projected decrease in dollars is approximately \$1,054,000 for fiscal year 2019. The fiscal year 2019 contribution decrease of 0.81% in the Employees System will be spread across the various Enterprise Funds, Internal Service Funds and to the General Fund.

We want to strongly caution the City of Fresno that these offsets/savings in City contributions are most likely short-term or temporary in nature given the current low investment return environment and in all probability will be eliminated over a few years.

City of Fresno Fire and Police System

The blended Fire and Police System rate of 18.72% for fiscal year 2019 is a decrease of 0.20% from the current fiscal year 2018 City contribution rate of 18.92% and will temporarily decrease the City's required payments to the Fire and Police System by approximately \$209,000 from the prior fiscal year estimated contributions. Due to the current surplus funding status, the City of Fresno's contribution rate of 18.72% is net of 4.27% in surplus credits which amount to approximately \$4.5 million in City contribution savings for the fiscal year.

We want to strongly caution the City of Fresno that these offsets/savings in City contributions are most likely short-term or temporary in nature given the current low investment return environment and in all probability will decline and be eliminated over a few years. We suggest that City Management carefully consider the impact of losing the \$4 million in credits to contribution that will have a direct effect to the General Fund over the next few years.

The net decrease in the City's cost are primarily a result of the difference between the actual and estimated 2017/2018 plan year contributions compared to a similar difference for the 2016/2017 fiscal year after taking into account surplus available as of June 30, 2017.

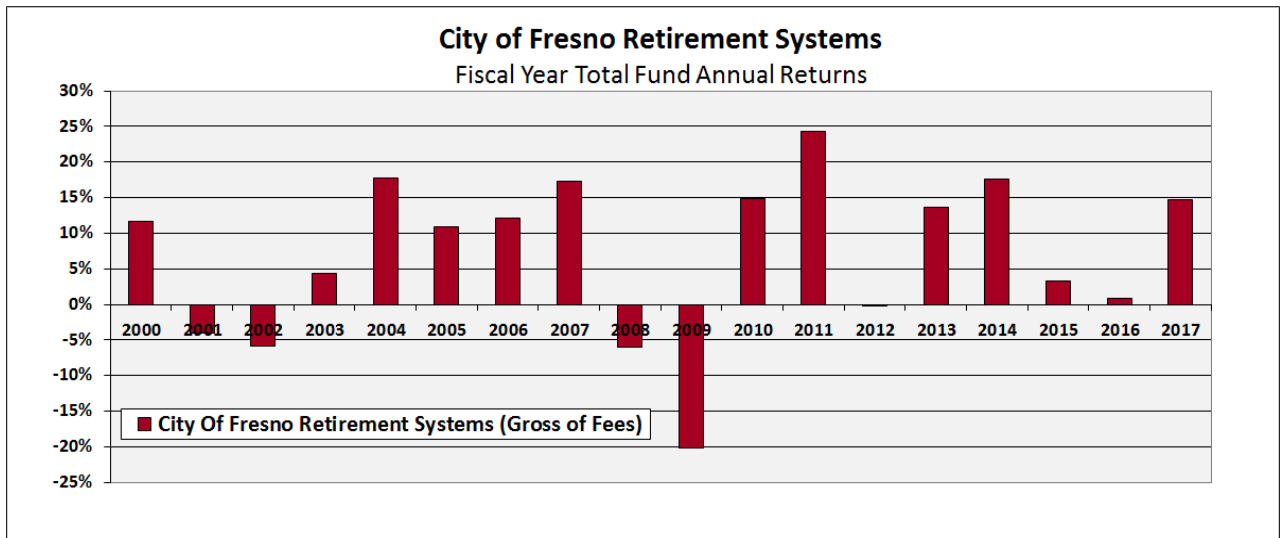
Investment Return Information

For the fiscal year ended June 30, 2017, our investment activities returned gross of fees 14.74 percent; for the past three years our gross of fees return was 6.15 percent annualized, 9.82 percent annualized over the prior five years and 7.75% over the past fifteen years as of June 30, 2017.

It is of utmost importance to examine the System's 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 rather than a short-term focus which tends to distort the perception of how well the investments have actually performed. The intermediate term (three,

five, ten and fifteen-year) performance rates demonstrate the extreme volatility of the markets; while the historical long-term performance rates of returns demonstrate that despite the short and intermediate term volatility the System has been able to meet or exceed its actuarial assumed rate of return of 7.25 percent over long periods. As of June 30, 2017, the System's 25-year annualized return is 8.70 percent and its 20-year annualized return is 7.37 percent.

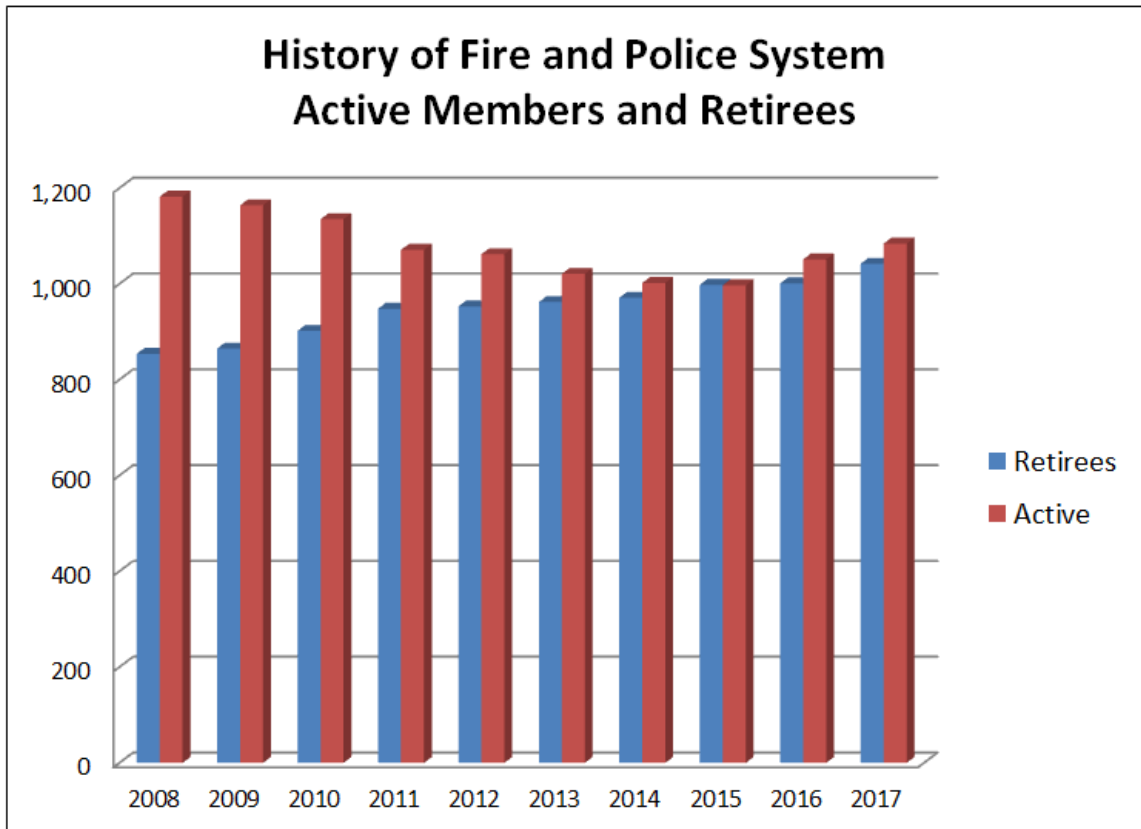
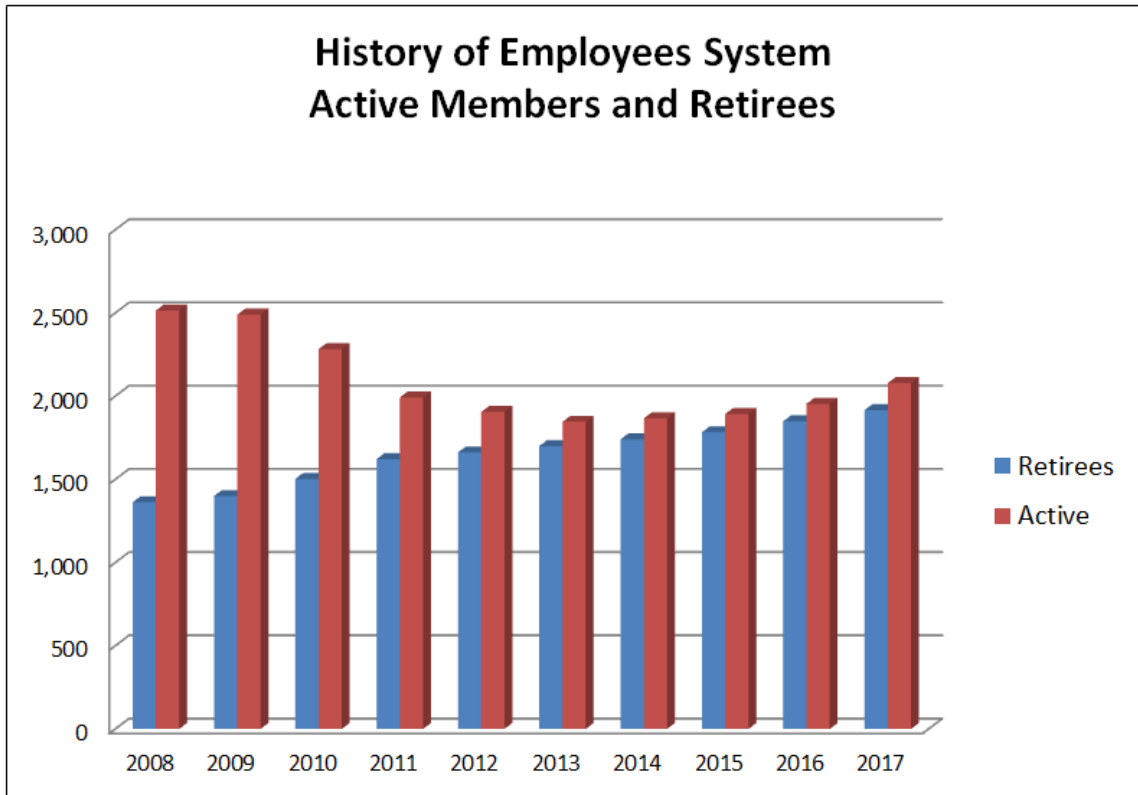
These investment returns were achieved by the Boards on a risk controlled basis without the use of higher risk investment vehicles such as hedge funds.



System Membership Activity

Membership activity in the Retirement Systems during the fiscal year resulted in a total net addition of 158 members, Active membership increasing with the addition of 125 new members in the Employees Retirement System and 33 new members in the Fire and Police Retirement System for the one-year period ended June 30, 2017.

The number of retirees has also increased slightly with the Systems' adding a net total of 108 retirees for a total combined retired membership of 2,958 at June 30, 2017.



ENVIRONMENTAL FINDINGS

N/A

LOCAL PREFERENCE

N/A

FISCAL IMPACT

N/A

Attachments:

1. Summary Highlights for Fiscal Year 2017
2. Comprehensive Annual Financial Reports for the Employees and Fire and Police Retirement Systems for the years ending June 30, 2017 and 2016