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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, 2020

**Sponsors:** Retirement Department

**Indexes:**

**Code sections:**

**Attachments:** 1. CAFR Highlights 06302020 final.pdf, 2. Employees Retirement System - FY2020 CAFR\_Final.pdf, 3. Fire & Police Retirement System - FY2020 CAFR Final.pdf

Date	Ver.	Action By	Action	Result
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**REPORT TO THE CITY COUNCIL**

**January 28, 2020**

**FROM:** CITY OF FRESNO RETIREMENT BOARDS

**BY:** ROBERT THELLER, Retirement Administrator  
City of Fresno Retirement Systems

**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, 2020

**RECOMMENDATION**

The Retirement Boards have reviewed and approved the attached Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2020 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, 2020 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 9, 2020 Retirement Board meeting, the Boards approved the attached Comprehensive Annual Financial Reports ("CAFR") for the fiscal year ended June 30, 2020. 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, 2019. To receive a Certificate of Achievement award, 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 ~\$2.99 billion as of June 30, 2020, respectfully submit the results of their fiscal year 2020 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, 2020 and 2019 submitted herewith. Information contained in 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 reports.

In addition to the information in the CAFR reports, we have prepared the attached schedule of summary 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, see pages iv and v in the Introductory Section of the attached Financial Reports.

The Financial Reports were prepared as of June 30, 2020, 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, 2020, the Boards adopted and implemented all applicable new Government Accounting Standards Board (GASB) pronouncements for the fiscal year ended June

30, 2020, as required by each statement.

### Systems' Funding Status

The City of Fresno Retirement Systems (City of Fresno Employees Retirement System 109.9% and the City of Fresno Fire and Police Retirement System 116.3% as of June 30, 2020 on an actuarial basis) remain as two of the highest funded Public Retirement Systems in the State of California. If measured on a market value of assets basis, the funding status of the City of Fresno Employees Retirement Systems is 105.3 percent and the City of Fresno Fire and Police Retirement System is 111.5 percent. The Systems have continued to achieve favourable investment returns during volatile investment markets.

### Retirement Board Adopted City Actuarial Rates for Fiscal Year 2021

Additionally, the Retirement Boards at their Board meeting November 24, 2020 adopted the following City Normal Pension Contribution rates for Fiscal Year 2021:

System	CAFR FY 2020	Current FY 2021	Adopted FY 2022
Employees Retirement System	11.11%	13.03%	13.35%
Actual/Est. City Normal Contributions (In Thousands)	\$16,554	\$21,035	\$21,549
Fire and Police System (Blended Tiers)	19.59%	22.82%	22.56%
Actual/Est. City Normal Contributions (In Thousands)	\$22,324	\$27,780	\$27,471

#### City of Fresno Employees Retirement System

The net City contribution rate for fiscal year 2022, of 13.35%, for the Employees System is an increase of 0.32% over the current fiscal year 2021 net rate of 13.03%. This increase is the net result of (i) the depletion of the surplus offset, offset somewhat by (ii) a smaller contribution shortfall for the 2020/2021 fiscal year compared to the shortfall in the 2019/2020 fiscal year, and (iii) changes in membership demographics among all active (DROP and non-DROP) members.

The projected increase in dollars is approximately \$0.5 million for fiscal year 2022. The fiscal year 2022 contribution increase of 0.32% in the Employees System will be spread across the various Enterprise Funds, Internal Service Funds and to the General Fund.

Each year we strongly caution the City of Fresno that 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. As of June 30, 2020, there is no declaration of actuarial surplus as the Employees Retirement System has a Valuation Value of Assets that are less than 110% of the actuarial accrued liability.

#### City of Fresno Fire and Police System

The blended Fire and Police System rate of 22.56% for fiscal year 2022 is a decrease of 0.26% from the current fiscal year 2021 City contribution rate of 22.82% and will decrease the City's required

payments to the Fire and Police System by approximately \$0.3 million from the prior fiscal year estimated contributions. Due to the current surplus funding status, the City of Fresno’s contribution rate of 22.56% is net of 2.83% in surplus credits which amount to approximately \$3.4 million in City contribution savings for the fiscal year 2022.

Each year we 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 diminishing surplus credits to contributions and the corresponding direct effect to the General Fund over the next few years.

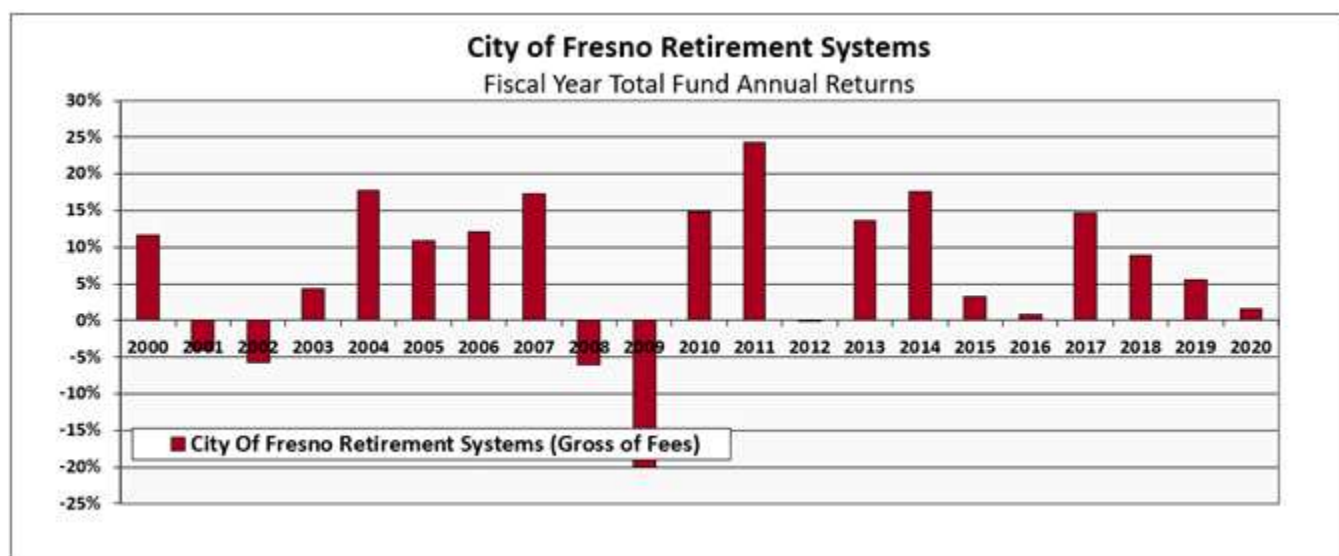
The net decrease in the City’s cost are primarily a result of (i) a lower surplus offset and (ii) change in membership demographics among all active (DROP and non-DROP) members, offset by (iii) the change to the interest crediting rate for the DROP benefits that are credited to a DROP account.

### Investment Return Information

For the fiscal year ended June 30, 2020, the Systems’ annual return is 1.62 percent gross of fees; three year return is 5.32 percent, five year return is 6.23 percent and ten year return is 8.76 percent.

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 short and long-term (one, three, five, ten, fifteen, twenty and twenty-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 7.00 percent over longer periods. As of June 30, 2020, the System’s 10-year annualized return is 8.76 percent and its 25-year annualized return is 7.96 percent.

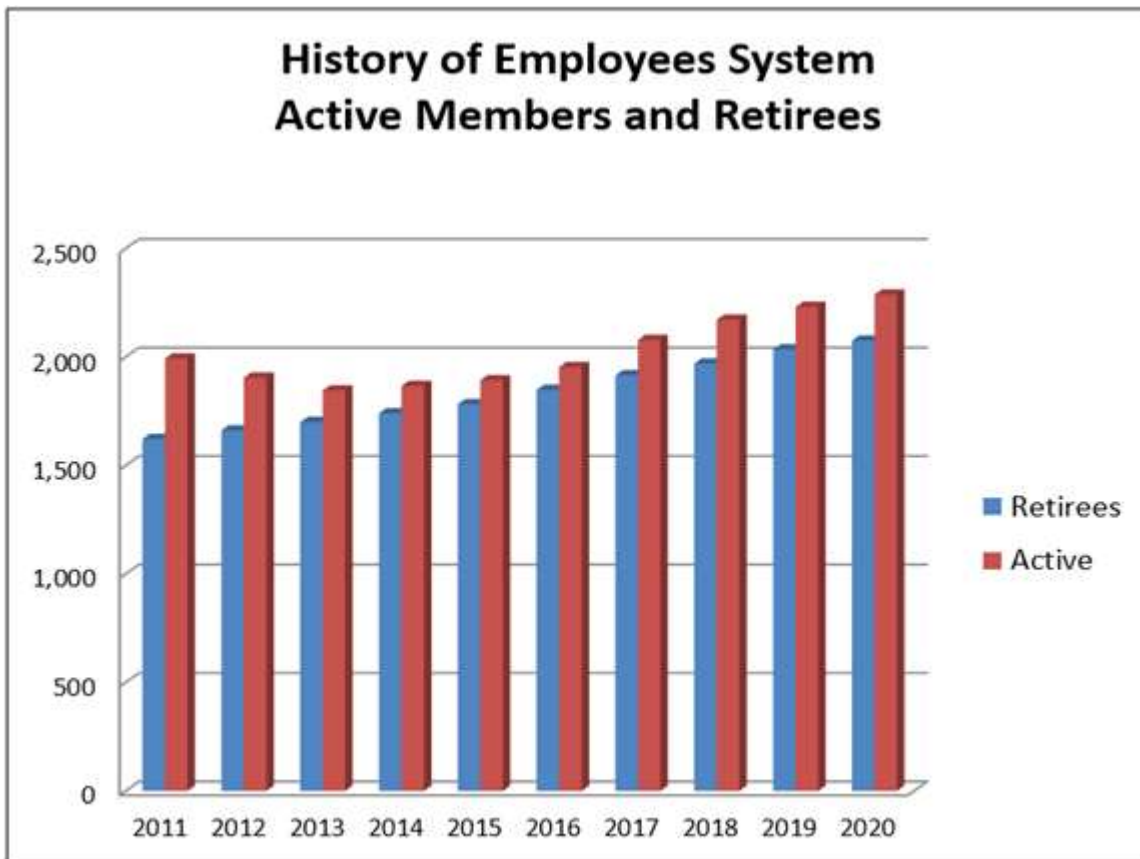
These investment returns were achieved by the Boards on a risk controlled basis without the use of higher risk investment vehicles such as hedge funds.

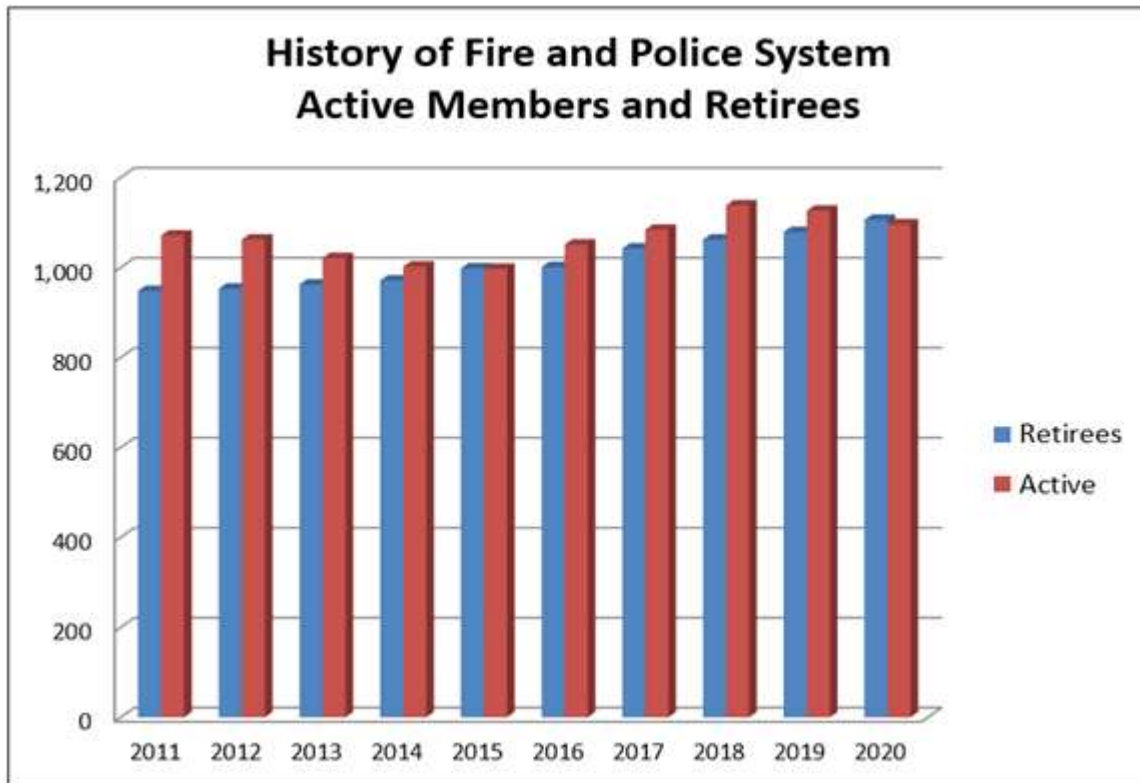


### System Membership Activity

Membership activity in the Retirement Systems during the fiscal year resulted in a total net addition of 27 members, the Employees Retirement system active membership increased by 57 members and the Fire and Police Retirement System active membership decreased by 30 members for the one-year period ended June 30, 2020.

The number of retirees has also increased slightly with the Systems' adding a net total of 68 retirees for a total combined retired membership of 3,182 at June 30, 2020.





**ENVIRONMENTAL FINDINGS**

[N/A]

**LOCAL PREFERENCE**

[N/A]

**FISCAL IMPACT**

[None]

Attachments:

1. Summary Highlights for Fiscal Year 2020
2. Comprehensive Annual Financial Reports for the Employees and Fire and Police Retirement Systems for the years ending June 30, 2020 and 2019