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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, 2018
Sponsors: Retirement Department
Indexes:
Code sections:
Attachments: 1. CAFR Highlights 06302018.pdf, 2. Employees Retirement System - FY2018 CAFR r161.pdf, 3. Fire & Police Retirement System - FY2018 CAFR r159.pdf

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|-----------|------|--------------|----------|--------|
| 2/14/2019 | 1 | City Council | approved | Pass |

REPORT TO THE CITY COUNCIL

February 14, 2019

FROM: CITY OF FRESNO RETIREMENT BOARDS

BY: Robert T. Theller, Retirement Administrator
City of Fresno 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, 2018

RECOMMENDATION

The Retirement Boards have reviewed and approved the attached Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2018 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, 2018 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

At their January 9, 2018 Retirement Board meeting, the Boards approved the attached Comprehensive Annual Financial Reports ("CAFR") for the fiscal year ended June 30, 2018. 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, 2017. 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 ~\$3.0 billion as of June 30, 2018, respectfully submit the results of their fiscal year 2018 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, 2018 and 2017 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, 2018, 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, 2018, the Boards adopted and implemented all applicable new Government Accounting Standards Board (GASB) pronouncements for the fiscal year ended June 30, 2018, as required by each statement. GASB Statement No. 85 (GASB 85)

OMNIBUS 2017, was issued in March 2017 effective for reporting periods beginning after June 15, 2017. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). There was no material impact on the Systems' financial statements as a result of the implementation of GASB Statement No. 85.

Systems' Funding Status

As the two highest funded Public Retirement Systems (City of Fresno Fire and Police Retirement System 120.3% and the City of Fresno Employees Retirement System 114.8% as of June 30, 2018 on an actuarial basis and if measured on a market value of assets basis the City of Fresno Fire and Police Retirement System 122.2% and the City of Fresno Employees Retirement System 116.6%) 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 2020

Additionally, the Retirement Boards at their Board meeting December 9, 2018, adopted the following City Normal Pension Contribution rates for Fiscal Year 2020:

| System | CAFR FY2018 | Current FY 2019 | Adopted FY 2020 |
|--|----------------|--------------------|--------------------|
| Employees Retirement System | 11.39% | 10.58% | 11.11% |
| Actual/Est/ City Normal Contributions (In Thousands) | \$14,608 | \$14,495 | \$15,524 |
| Fire and Police Retirement System | 18.92% | 18.72% | 19.59% |
| Actual/Est/ City Normal Contributions (In Thousands) | \$19,697 | \$20,397 | \$22,510 |

City of Fresno Employees Retirement System

The net City contribution rate for fiscal year 2020, of 11.11%, for the Employees System is an increase of 0.53% over the current fiscal year 2019 net rate of 10.58%. This increase is the net result of (i) the difference between the actual and the estimated 2018/2019 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 increase in dollars is approximately \$747,000 for fiscal year 2020. The fiscal year 2020 contribution increase of 0.53% 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 19.59% for fiscal year 2020 is an increase of 0.87% from the current fiscal year 2019 City contribution rate of 18.72% and will temporarily increase the City's required payments to the Fire and Police System by approximately \$1,009,000 from the prior fiscal year estimated contributions. Due to the current surplus funding status, the City of Fresno's contribution rate of 19.59% is net of 3.94% in surplus credits which amount to approximately \$4.5 million in City contribution savings for the fiscal year 2020.

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.

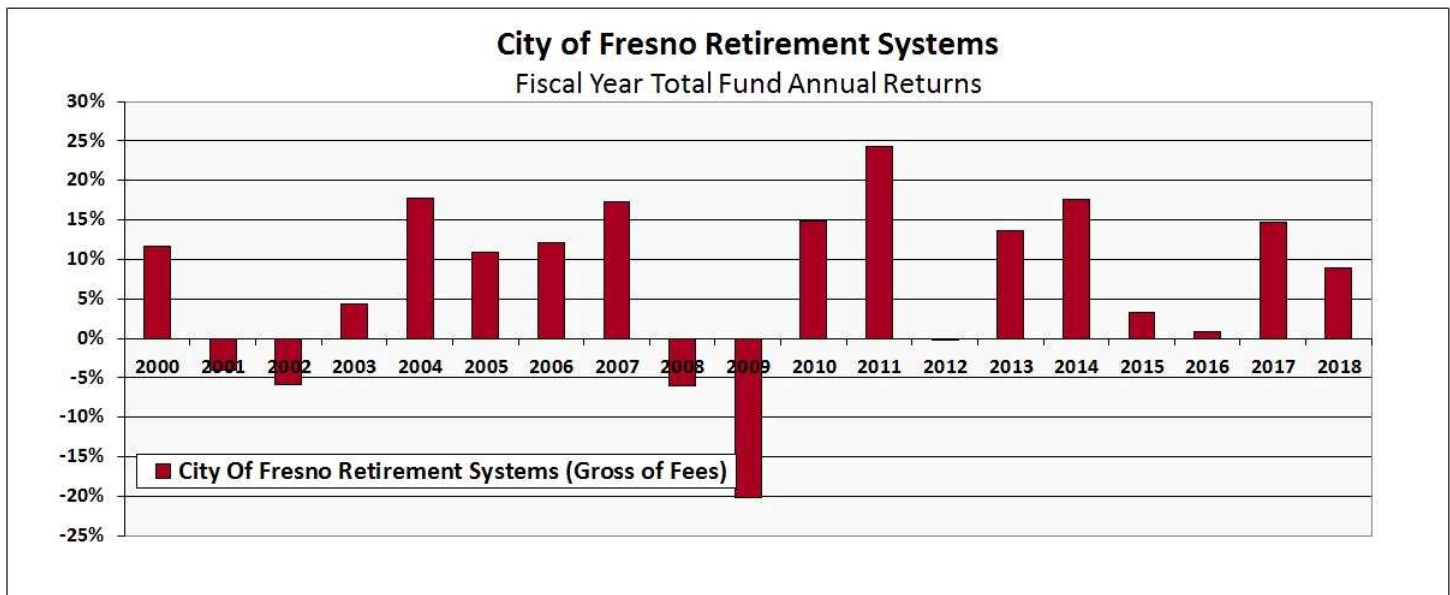
The net decrease in the City's cost are primarily a result of the difference between the actual and estimated 2018/2019 plan year contributions compared to a similar difference for the 2017/2018 fiscal year after taking into account surplus available as of June 30, 2018.

Investment Return Information

For the fiscal year ended June 30, 2018, our investment activities returned gross of fees 8.87 percent; for the past three years our gross of fees return was 8.02 percent annualized, 8.90 percent annualized over the prior five years and 8.51% over the past twenty-five years as of June 30, 2018.

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, fifteen and twenty-year) performance rates demonstrate the extreme volatility of the markets; while the historical longer-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, 2018, the System's 25-year annualized return is 8.51 percent and while its 20-year annualized return is 6.85 percent, 0.40 percent below the Systems' current actuarial assumed rate of return.

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.

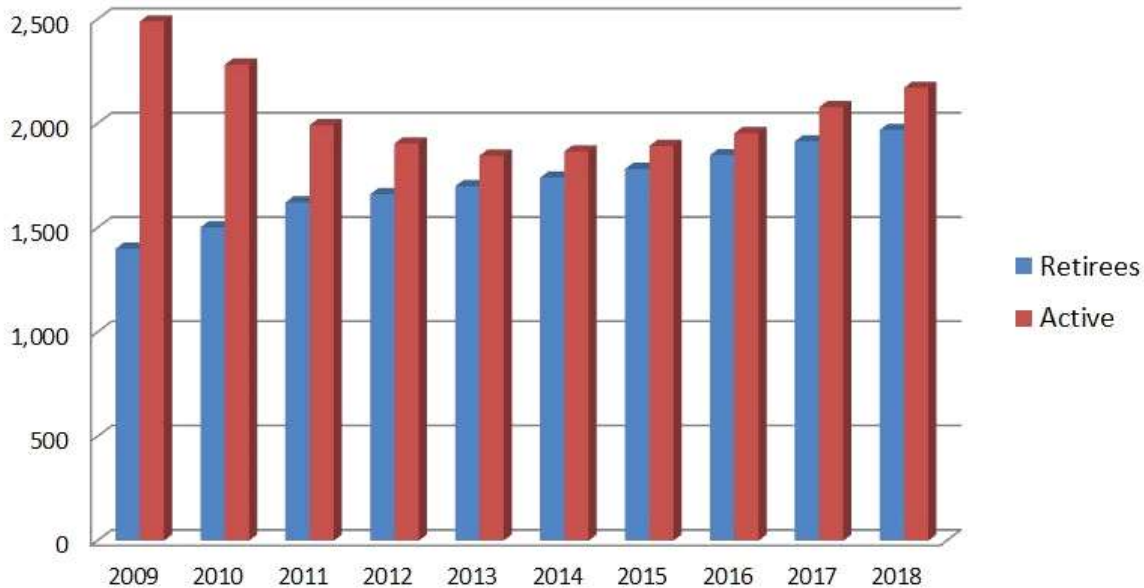


System Membership Activity

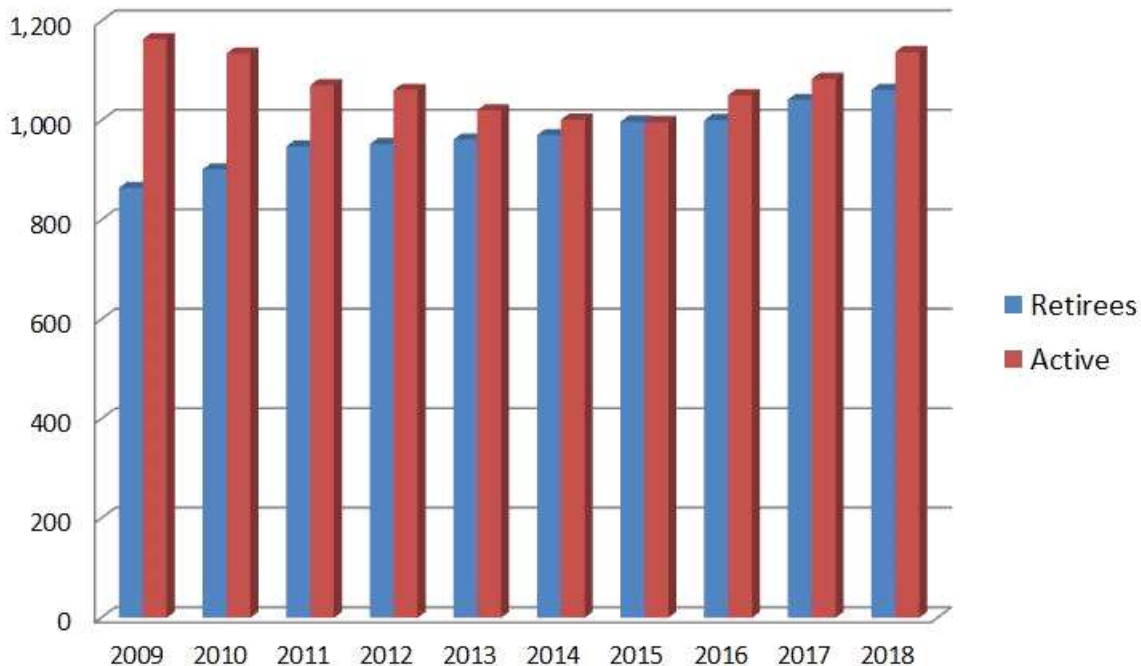
Membership activity in the Retirement Systems during the fiscal year resulted in a total net addition of 147 members, Active membership increasing with the addition of 93 new members in the Employees Retirement System and 54 new members in the Fire and Police Retirement System for the one-year period ended June 30, 2018.

The number of retirees has also increased slightly with the Systems' adding a net total of 74 retirees for a total combined retired membership of 3,032 at June 30, 2018.

History of Employees System Active Members and Retirees



History of Fire and Police System Active Members and Retirees



ENVIRONMENTAL FINDINGS

N/A

LOCAL PREFERENCE

N/A

FISCAL IMPACT

Attachments:

1. Summary Highlights for Fiscal Year 2018
2. Comprehensive Annual Financial Reports for the Employees and Fire and Police Retirement Systems for the years ending June 30, 2018 and 2017.