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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, 2019
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Attachments: 1. CAFR Highlights 06302019 final.pdf, 2. Employees Retirement System - FY2019 CAFR.pdf, 3. Fire & Police Retirement System - FY2019 CAFR.pdf

Date	Ver.	Action By	Action	Result
1/16/2020	1	City Council	approved	

REPORT TO THE CITY COUNCIL

January 16, 2020

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, 2019

RECOMMENDATION

The Retirement Boards have reviewed and approved the attached Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2019 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, 2019 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 December 11, 2019 Retirement Board meeting, the Boards approved the attached Comprehensive Annual Financial Reports ("CAFR") for the fiscal year ended June 30, 2019. 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, 2018. In order 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 ~\$3.01 billion as of June 30, 2019, respectfully submit the results of their fiscal year 2019 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, 2019 and 2018 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, v and vi in the Introductory Section of the attached Financial Reports.

The Financial Reports were prepared as of June 30, 2019, 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, 2019, the Boards adopted and implemented all applicable new Government Accounting Standards Board (GASB) pronouncements for the fiscal year ended June 30, 2019, as required by each statement. GASB Statement No. 83 (GASB 83) *Certain Asset Retirement Obligations*, was issued in November 2016 effective for reporting periods beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). There was no material impact on the Systems' financial statements as a result of the implementation of GASB Statement No. 83.

GASB Statement No. 88 (GASB 88) *Certain Disclosures Related to Debt*, was issued in April 2018 effective for reporting periods beginning after June 15, 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. There was no material impact on the Systems' financial statements as a result of the implementation of GASB Statement No. 88

Systems' Funding Status

The City of Fresno Retirement Systems (City of Fresno Employees Retirement System 111.9% and the City of Fresno Fire and Police Retirement System 117.0% as of June 30, 2019 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 112.4 percent and the City of Fresno Fire and Police Retirement System is 117.5 percent. The Systems have continued to achieve favourable investment returns during volatile investment markets.

Retirement Board Adopted City Actuarial Rates for Fiscal Year 2020

Additionally, the Retirement Boards at their Board meeting November 26, 2019 adopted the following City Normal Pension Contribution rates for Fiscal Year 2021:

System	CAFR FY 2019	Current FY 2020	Adopted FY 2021
Employees Retirement System	10.58%	11.11%	13.03%
Actual/Est. City Normal Contributions (In Thousands)	\$14,627	\$16,686	\$19,558
Fire and Police System (Blended Tiers)	18.72%	19.59%	22.82%
Actual/Est. City Normal Contributions (In Thousands)	\$20,604	\$23,276	\$27,124

City of Fresno Employees Retirement System

The net City contribution rate for fiscal year 2021, of 13.03%, for the Employees System is an increase of 1.92% over the current fiscal year 2020 net rate of 11.11%. This increase is the net result of (i) changes in actuarial assumptions and (ii) a lower surplus offset to pay employer COLA contributions, offset somewhat by (iii) a smaller contribution shortfall for the 2019/2020 fiscal year compared to the shortfall in the 2018/2019 fiscal year, and (iv) changes in membership demographics among all active (DROP and non-DROP) members.

The projected increase in dollars is approximately \$2.8 million for fiscal year 2021. The fiscal year 2021 contribution increase of 1.92% 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.

City of Fresno Fire and Police System

The blended Fire and Police System rate of 22.82% for fiscal year 2021 is an increase of 3.23% from the current fiscal year 2020 City contribution rate of 19.59% and will increase the City's required payments to the Fire and Police System by approximately \$3.8 million from the prior fiscal year estimated contributions. Due to the current surplus funding status, the City of Fresno's contribution rate of 22.82% is net of 3.12% in surplus credits which amount to approximately \$3.7 million in City contribution savings for the fiscal year 2021.

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.

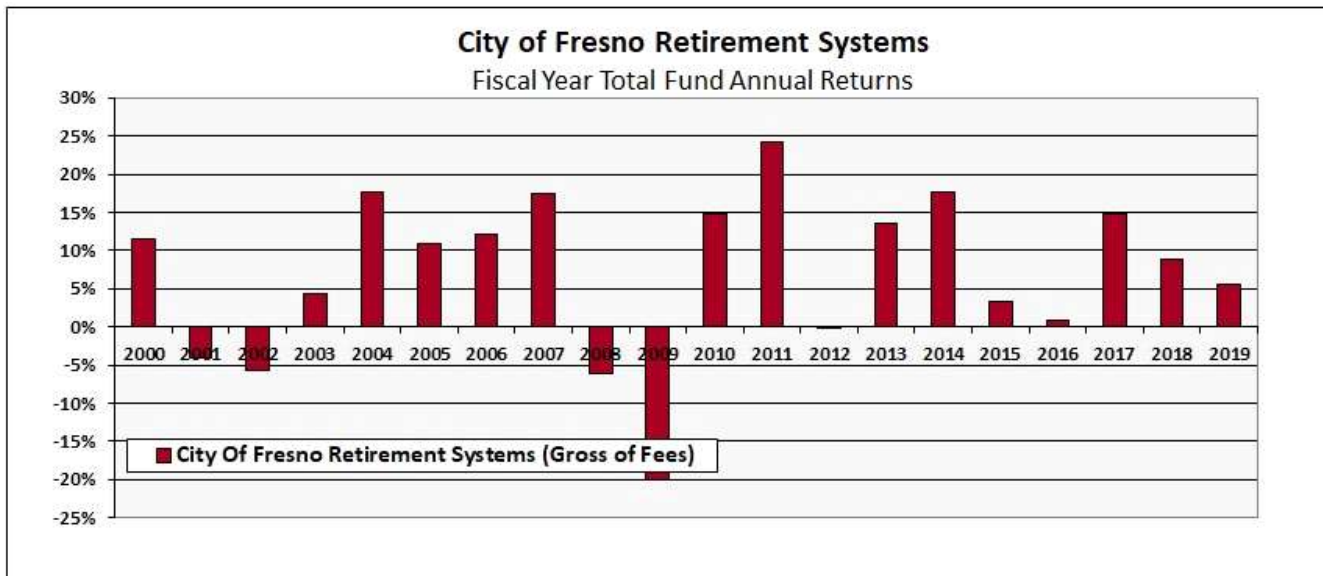
The net decrease in the City's cost are primarily a result (i) changes in actuarial assumptions and (ii) a lower surplus offset, (iii) changes in membership demographics among all active (DROP and non-DROP) members, offset somewhat by (iv) a contribution surplus for the 2019/2020 fiscal year compared to no surplus or shortfall in the 2018/2019 fiscal year.

Investment Return Information

For the fiscal year ended June 30, 2019, our investment activities returned gross of fees 5.60 percent; for the past three years our gross of fees return was 9.67 percent annualized, 6.58 percent annualized over the prior five years and 8.66% over the past twenty-five years as of June 30, 2019.

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 and prior assumed rate of return of 7.25 percent over long periods. As of June 30, 2019, the System's 15-year annualized return is 7.28 percent and its 25-year annualized return is 8.66 percent.

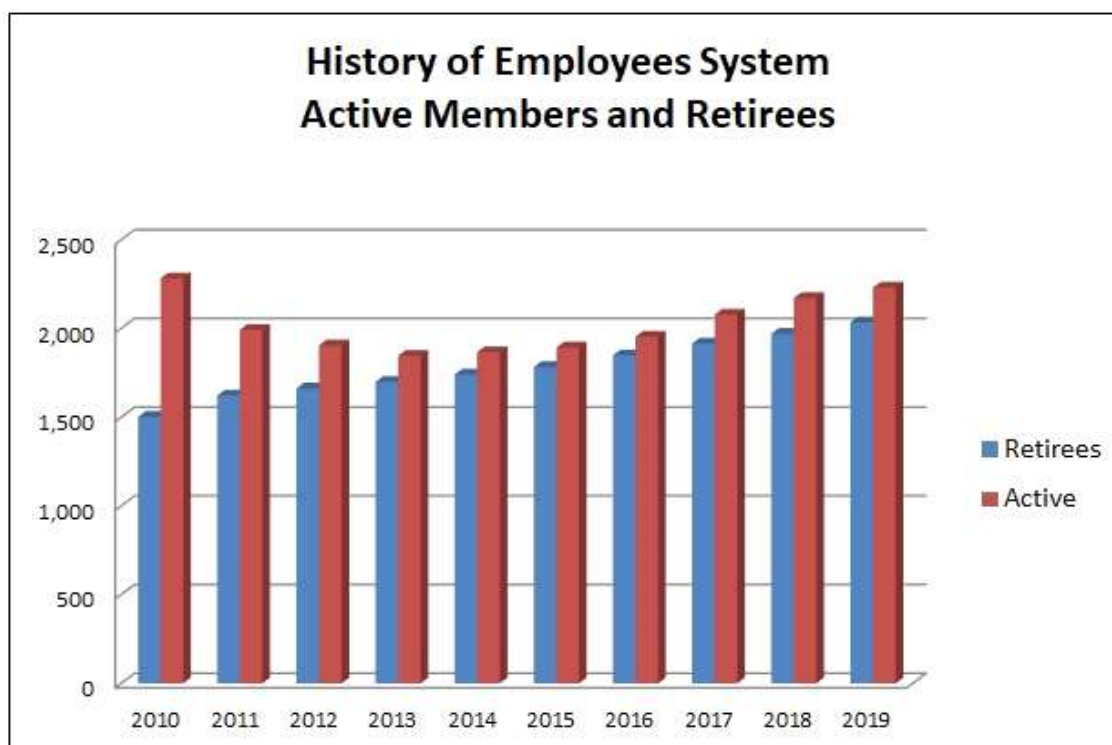
These investment returns were achieved by the Boards on a risk controlled basis without the use of higher risk investment vehicles such as hedge funds.

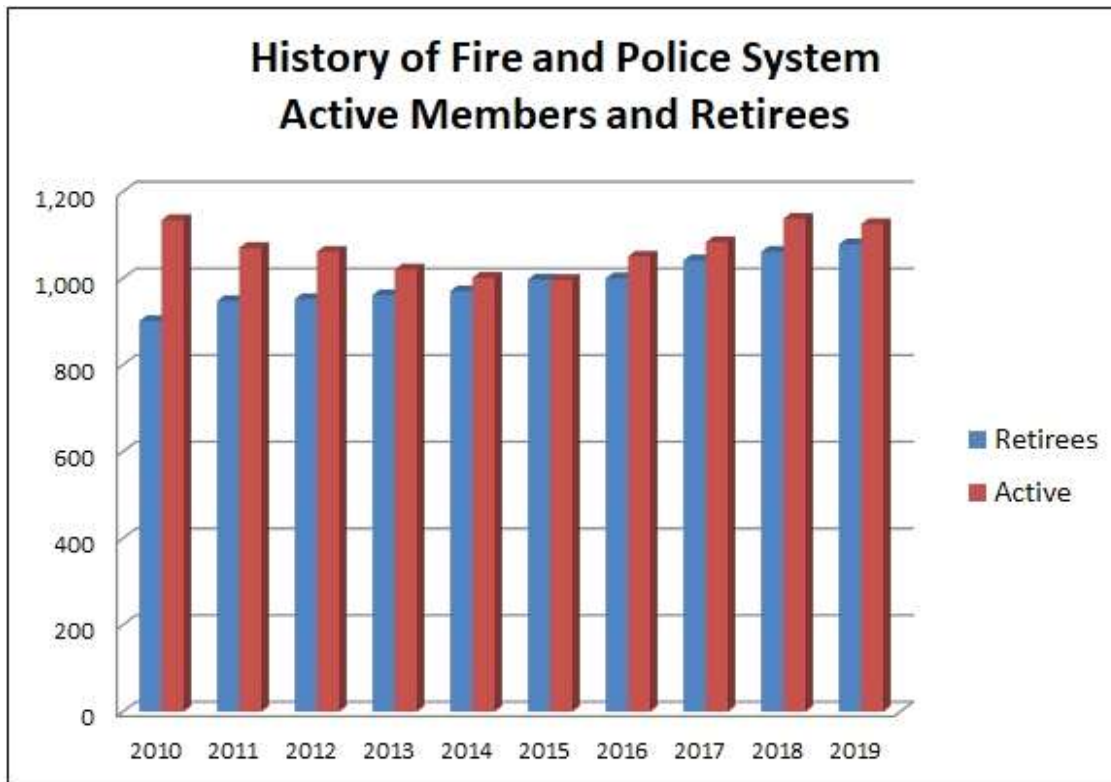


System Membership Activity

Membership activity in the Retirement Systems during the fiscal year resulted in a total net addition of 47 **members**, the Employees Retirement system active membership decreased by 12 members and the Fire and Police Retirement System active membership increased by 59 members for the one-year period ended June 30, 2019.

The number of retirees has also increased slightly with the Systems' adding a net total of 82 retirees for a total combined retired membership of 3,114 at June 30, 2019.





ENVIRONMENTAL FINDINGS

N/A

LOCAL PREFERENCE

N/A

FISCAL IMPACT

N/A

Attachments:

1. Summary Highlights for Fiscal Year 2019
2. Comprehensive Annual Financial Reports for the Employees and Fire and Police Retirement Systems for the years ending June 30, 2019 and 2018.