CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
A Pension Trust Fund of the City of San Jose, California

# Comprehensive Annual Financial Report

## For the Fiscal Year Ended June 30, 2001

**Edward F. Overton**
**Director**

City of San Jose
Department of Retirement Services
1737 N. First Street, Suite 580
San Jose, CA 95112-4505
(408) 392-6700 / Fax (408) 392-0771
www.ci.san-jose.ca.us/retire/retirement.htm

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CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

*Department of Retirement Services*

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

October 22, 2001

The Honorable Mayor and City Council
Members of the Police and Fire Department Retirement Plan
City of San Jose
San Jose, California

Dear Mayor, Council Members and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Police and Fire Department Retirement Plan's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001. Some significant events worthy of note during this fiscal year were as follows:

- The Plan earned 0.2% on investments, compared to –3.3% for its benchmark and –5.4% for the TUCS Public Fund Universe.
- The Board's investment consultant, Mercer Investment Consulting, Inc., completed an asset liability modeling to examine if the Plan's current asset allocation will meet future liabilities.
- Following the asset liability modeling, the Board approved new asset allocation targets, which includes an allocation to emerging market equities. Transition to the new targets will be completed in the next fiscal year.
- A new large cap growth domestic equities manager, GE Asset Management was funded in December 2000.
- The Plan was awarded the Certificate of Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada for its 1999-00 Comprehensive Annual Financial Report.

The Board believes that the professional services rendered by the staff, the auditors, investment counselors, and the Fund performance evaluators have produced a sound fund capable of continued growth. The Board of Administration and its staff are available to provide additional information when requested.

Sincerely,

DAVID A. BACIGALUPI, Chair
Board of Administration

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# LETTER OF TRANSMITTAL

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

*Department of Retirement Services*
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

October 1, 2001

Board of Administration
Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San Jose, CA 95112

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report ("CAFR") of the Police and Fire Department Retirement Plan ("Plan") for the fiscal year ended June 30, 2001. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the Plan's management. Macias, Gini & Company LLP, the Plan's independent auditor, has audited the accompanying financial statements. Management believes internal control is adequate and the accompanying statements, schedules and tables are fairly presented and free from material misstatement.

The Plan was established in 1946 and last year was the first time the Plan used a CAFR format. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that last year's CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

**Structure of the Report**

This report is presented in five sections:

- The Introductory Section contains a letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting, a listing of the professional services used, description of the Plan's management and organizational structure, and a summary of the plan provisions.
- The Financial Section contains the independent auditor's report from Macias, Gini & Company LLP, the financial statements of the Plan and certain required supplementary information.
- The Investment Section contains the report of investment activity produced by William M. Mercer, Inc., the Plan's investment consulting firm, along with investment policies and graphs and schedules regarding asset allocation, asset diversification and performance.
- The Actuarial Section contains the certification letter produced by the independent actuary, William M. Mercer, along with the results of the Plan's last bi-annual valuation (1999).
- The Statistical Section contains graphs and schedules with comparative data related to revenue, expenses, benefits, and membership.

1737 N. First St. Suite 580 San José, CA 95112-4505 tel (408) 392-6700 fax (408) 392-0771 www.ci.san-jose.ca.us

# LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal
10/01/01 Page 2 of 4

I trust that you and the members of the Plan will find this CAFR helpful in understanding the Police and Fire retirement plan – a plan that continues to maintain a strong and positive financial future.

**Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid only for one year. The Plan received the certificate last year with its first application. We believe this report continues to conform to the Certificate of Achievement Program Requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standard Board. Transactions of the Plan are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

**Major Initiatives**

The Board of Administration approved new asset allocation targets following completion of an asset liability modeling study. The new asset allocation adds an allocation to emerging market equities and increases its allocation to developed international equities and real estate while reducing its allocation to domestic and global fixed income. The Board initiated investment manager searches for emerging market equities and a new developed international equities manager with a growth style to compliment the existing value managers. Transition to the new asset allocation targets will be completed in FY01-02.

**Additions to Plan Net Assets**

The collection of employer and employee contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. Contributions and investment income for FY2001 totaled $35,419,000.

| ADDITIONS | 2001 | 2000 | Increase (Decrease) | Change |
|---|---|---|---|---|
| Employee Contributions | 15,542,000 | 15,374,000 | 168,000 | 1% |
| Employer Contributions | 24,672,000 | 30,187,000 | (5,515,000) | (18%) |
| Investment Income | (4,795,000) | 114,911,000 | (119,706,000) | (104%) |
| **TOTAL** | **$35,419,000** | **$160,472,000** | **$(125,053,000)** | **(78%)** |

# LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal
10/01/01 Page 3 of 4

The decrease in investment income was attributable mainly to lower net appreciation in fair value of investments (unrealized loss). Employee contributions remained about the same due to a decrease in rates but increase in employee payroll. The decrease in employer contributions was attributed to a lower contribution rate.

**Deductions from Plan Net Assets**

The principal purpose for which the Plan was created is to provide retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes benefit payments as designated by the Plan, return of contributions and interest to employees who have terminated their membership, healthcare insurance premiums and the cost of administering the Plan.

| DEDUCTIONS | 2001 | 2000 | Increase (Decrease) | Change |
|---|---|---|---|---|
| Retirement Benefits | $45,699,000 | $40,974,000 | $4,725,000 | 12% |
| Healthcare Insurance Premiums | 5,685,000 | 4,649,000 | 1,036,000 | 22% |
| Death Benefits (Survivorship) | 1,772,000 | 1,689,000 | 83,000 | 5% |
| Return of Contributions | 615,000 | 194,000 | 421,000 | 217% |
| Administrative Expenses | 1,550,000 | 1,019,000 | 531,000 | 52% |
| **TOTAL** | **$55,321,000** | **$48,525,000** | **$6,796,000** | **14%** |

The increase in retirement and healthcare benefits was mainly due to increase number of beneficiaries along with increased health premium costs. The increase in administrative expenses was mainly due to increase staff cost for added positions, computer hardware for increased staff and the cost for software development for the pension administrative system for new benefit enhancements.

**Changes in Plan Memberships**

Plan membership changes for the defined benefit pension plan for FY2001 were as follows:

| | 2001 | 2000 | Increase (Decrease) | Change |
|---|---|---|---|---|
| Active Members* | 2,146 | 2,091 | 55 | 3% |
| Retired Members | 995 | 945 | 53 | 6% |
| Survivors** | 184 | 173 | 18 | 10% |
| **TOTAL** | **3,325** | **3,209** | **126** | **4%** |

* Active members include deferred vested members, members who have left City service but remain a member of the Plan.

** Survivor total includes ex-spouses.

# LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal
10/01/01 Page 4 of 4

**Financial and Economic Summary**

As expected, investment returns for the recent period were significantly lower than in previous years. For the fiscal year ended June 30, 2001, the total return for the Plan was 0.2%, which was well ahead of its Benchmark Index return of –3.3%. Maintaining a long-term perspective is important when dealing with retirement assets. The total return over the past five-year period was 10.3%, which is well above the actuarial assumption rate of 8.0%

The economic growth of the 90's was simply not sustainable, so a downturn in the economy and the equity markets was not unexpected. Mercer strongly believes that the current conservative asset allocation strategy followed by the Retirement Board will continue to benefit the plan's long-term return.

**Investment Summary**

The Board of Administration has exclusive control of all investments of the Retirement Plan and is responsible for the establishment of investment objectives, strategies and policies. Members of the Board serve in a fiduciary capacity and must discharge their duties with respect to the Plan and the investment portfolio solely in the interest of, and for the exclusive purposes of providing benefits to, members of the Plan.

Compared to the TUCS Public Fund Universe, the Plan's investments turned in an above-average performance during FY2001. The portfolio earned a total return of 0.2% versus –5.4% for TUCS. Over long-term periods, the portfolio has earned total annualized returns of 6.4% over the past three years and 10.3% over the past five years. On a fair value basis, the total plan net assets decreased from $1,690,690,000 to $1,667,950,000 net of pending purchases and sales.

**Funding**

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 1999, the funding ratio of the Plan was approximately at 112.8%. A six-year history of the Plan's funding progress is presented on page 32. The net decrease in Plan assets for FY2001 was $19,902,000. Details of the components of this decrease are included in the Statement of Changes in Plan Net Assets on pages 21.

**Conclusion**

I would like to take this opportunity to thank the members of the Plan for their confidence in the plan management during the past year. I also want to express my thanks to the Board of Administration for its dedicated effort in supporting the staff through this past year. I thank the consultants and staff for their commitment to the Plan and for their diligent work to assure the Plan's continued successful operation.

Respectfully Submitted,

Edward F. Overton
Director, Retirement Services

# CERTIFICATE OF ACHIEVEMENT

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

## San Jose Police and Fire Department Retirement Plan, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

# BOARD OF ADMINISTRATION

The Retirement Plan is administered by a seven-member Board of Administration composed of two City Council members, a member from the Civil Service Commission, two Plan members, one from the Police Department and one from the Fire Department, a member who has retired under the provision of the Plan and a member who holds a position in the City Administration at a level of Deputy Department Head or higher and who has experience in the investment or management of public funds, retirement funds, or institutional funds or endowment funds; in accordance with Section 2.08.400 of the San Jose Municipal Code.

As of June 30, 2001, the members of the Board were as follows:

**David Bacigalupi, Board Chairman**
Employee Representative for sworn police personnel elected to the Board in November 1993. His current term expires November 30, 2001.

**Mark Skeen, Vice Chairman**
Employee Representative of the Fire Department elected to the Board in November 1999. His current term expires November 30, 2003.

**Bill Brill**
Civil service commission member appointed on October 27, 1998. His current term expires December 1, 2001.

## BOARD OF ADMINISTRATION (Continued)

**David Cortese**
City Council Member appointed to the Board in January 1, 2001.

**George Shirakawa Jr.**
City Council Member appointed to the Board in January 1, 2001.

**Ken Heredia**
Retired Plan Member appointed to the Board in May 2000. His current term expires November 30, 2004

**Mark Burton**
City Administration Member appointed to the Board in May 2000.

## OUTSIDE CONSULTANTS

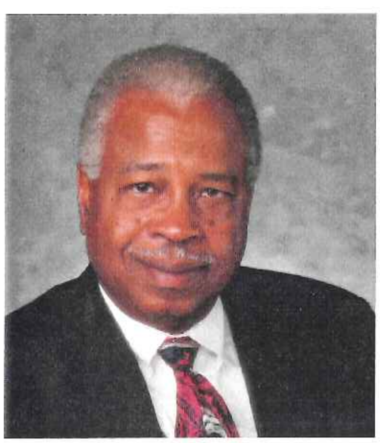
| | |
|---|---|
| ACTUARY | William M. Mercer, Inc.<br>San Francisco, CA |
| ATTORNEY, BOARD | Saltzman & Johnson<br>San Francisco, CA |
| ATTORNEY, REAL ESTATE | McCutchen, Doyle, Brown & Enersen<br>Palo Alto, CA |
| AUDITOR | Macias, Gini & Company, LLP<br>Walnut Creek, CA |

## STANDING PUBLIC MEETINGS

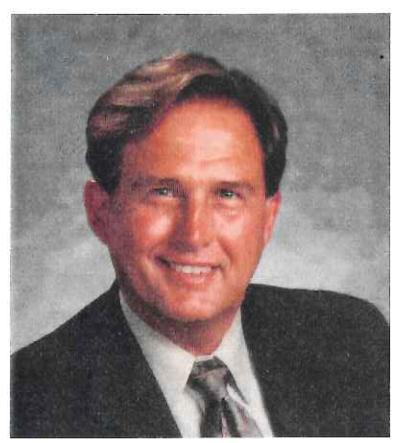
| | |
|---|---|
| Board Meetings: | First Thursday of the Month<br>8:30 AM - City Hall Council Chambers |
| Investment Subcommittee: | Third Thursday of the Month<br>10:00 AM - Department of Retirement Services Office |
| Real Estate Subcommittee: | Quarterly |

Agendas for all public meetings are posted on the bulletin board in front of City Hall and on the department's website at www.ci.san-jose.ca.us/retire/retirement.htm or they can be obtained in the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112. **Meeting times and locations are subject to change, please call our office at 408-392-6700 for current information.**

## DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION

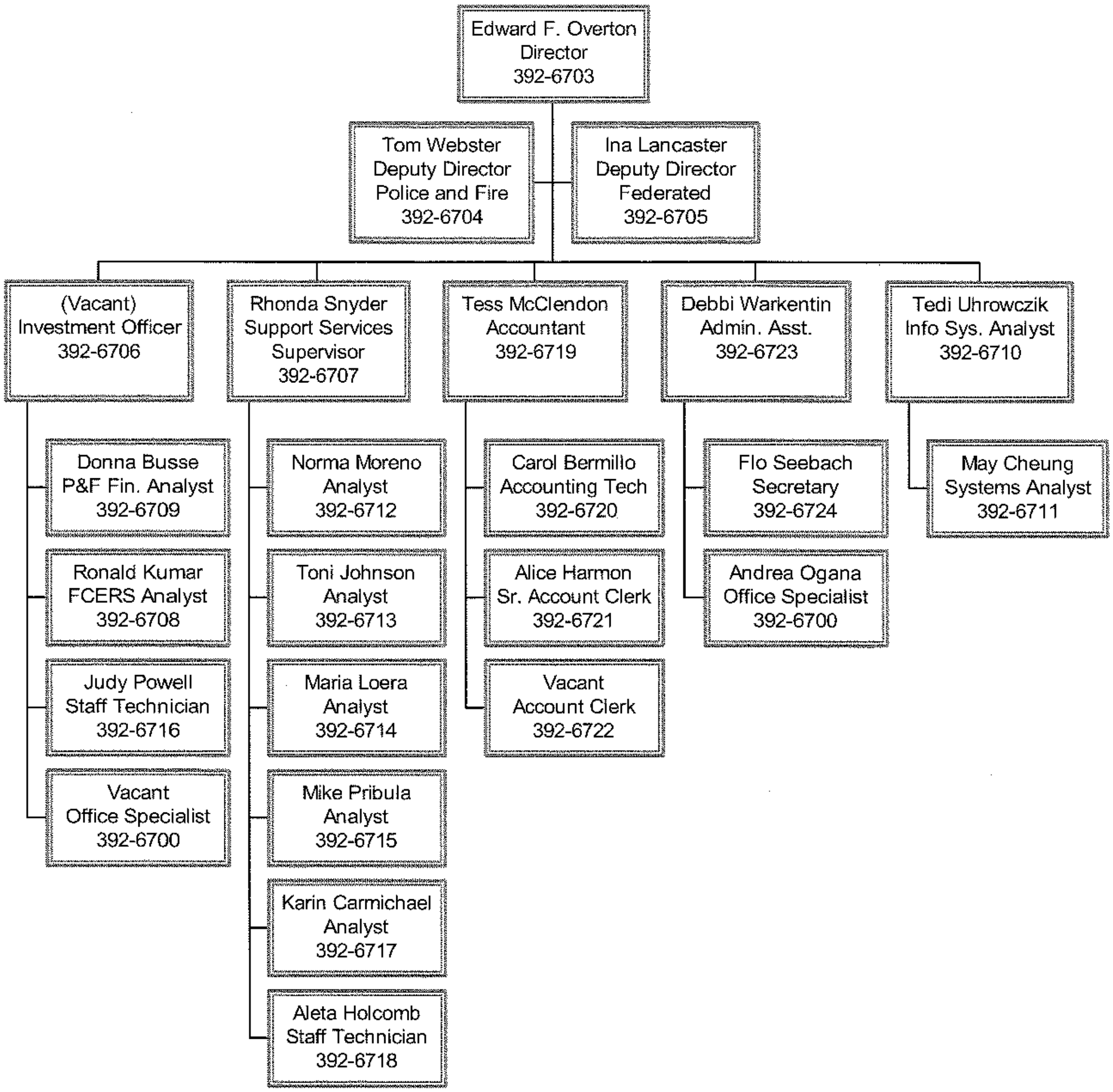


Edward F. Overton
Director, Retirement Services



Thomas J. Webster
Deputy Director

# DEPARTMENT OF RETIREMENT SERVICES ORGANIZATIONAL CHART




**DEPARTMENT OF RETIREMENT SERVICES**
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# SUMMARY OF THE PRINCIPAL PLAN PROVISIONS

## MEMBERSHIP

Mandatory for all full-time safety employees.

## MEMBER CONTRIBUTION

All members contribute 9.79% of base salary.

## CITY'S CONTRIBUTION

The City contributes 15.60% of the base salary.

## INTEREST

Two percent annual interest is calculated each biweekly pay period and is added to employee contributions. This interest is derived from investments.

## TERMINATION BENEFITS

Upon termination, the member shall be paid all of his/her accumulated contributions and interest in full satisfaction of all rights and benefits under this Retirement Plan. The City's contributions and interest will not be refunded to the employee.

## MILITARY LEAVE CREDIT

If during employment with the City of San Jose a member has served in the military, the City will pay the member's contributions into the Retirement System for that period of time if the following conditions exist: (1) a time of war, a national emergency proclaimed by the President or the Congress, or (2) Service outside the United States as requested by the United Nations. This is not refundable to an employee who resigns and requests a refund of contributions.

## VESTING OF PENSION CREDIT

After 10 years of service, a member may resign his/her position with the Police or Fire Department and leave the accumulated contributions in the Retirement Plan. A member who vests in this fashion is eligible to retire later at age 55 or when 20 years have elapsed form the original hire date. For a deferred vested retirement, the monthly retirement allowance is calculated with the same formula as a service retirement for those who separated on or after February 4, 1996 (See Below). Otherwise the calculation for the monthly retirement allowance is final compensation multiplied by 2 1/2% multiplied by years of service.

# SUMMARY OF THE PRINCIPAL PLAN PROVISIONS (Continued)

## SERVICE RETIREMENT

Members may retire at age 50 with 25 years of service, at 55 with at least 20 years of service or at any age with 30 years of service. The monthly retirement allowance is the final compensation multiplied by 2 1/2% multiplied by years of service up to 20 years and by 3% for the next five years. For those that retired on or after February 4, 2000 (or separated by, for deferred vested), final compensation is multiplied by 4% thereafter. There is a maximum of 85% (30 years of service equals 85%.)

## SERVICE-CONNECTED DISABILITY

Retirement resulting from an injury or disease arising out of and in the course of such member's employment with the City. No minimum period of service required. For members with less than 20 years of service, the monthly retirement allowance is 50% of the final compensation. For members with 20 or more years of service, the monthly retirement allowance is the final compensation multiplied by 2 1/2% multiplied by years of service up to 20 years and by 3% for the next five years. For those that retired on or after February 4, 2000, final compensation is multiplied by 4% thereafter. There is a maximum of 85% (30 years of service equals 85%.)

## NON-SERVICE-CONNECTED DISABILITY

Retirement resulting from other than a service-connected disability with at least 2 years of service. For members with 2 to 19 years of service, the monthly retirement allowance is 32% multiplied by the final compensation for first two years plus one percent for an additional year. For members with 20 or more years of service, the monthly retirement allowance is the final compensation multiplied by 2 1/2% multiplied by years of service up to 20 years and by 3% for the next five years. For those that retired on or after February 4, 2000, final compensation is multiplied by 4% thereafter. There is a maximum of 85% (30 years of service equals 85%.)

## EARLY SERVICE RETIREMENT

Retirement at age 50 to 55 with at least 20 years of service. Members' retirement allowance shall be calculated as if the member were at least 55, and then reduced according to guidelines set forth in Section 3.36.810 of the City of San Jose Municipal Code.

## MANDATORY RETIREMENT

Age 70.

## SURVIVORSHIP ALLOWANCE

The spouse will receive 37 1/2% of the final compensation if the member dies while entitled to immediate retirement for service, dies at any age due to a service-connected injury or illness, is retired for service, or is retired for service-connected disability. Optional Retirement Allowances are available.

# SUMMARY OF THE PRINCIPAL PLAN PROVISIONS (Continued)

For those that retire on or after February 4, 2000, the surviving spouse of a member who is entitled to a retirement benefit greater than 75% of final compensation gets a spousal benefit equal to 50% of the member benefit up to a maximum of 42.5% of final compensation.

If the member dies before age 55 with two or more years of services due to a non-service connected injury or illness, or if the member is retired for non-service connected disability, the spouse will receive 24% of final compensation for two years of service and 0.75% for each year thereafter (Maximum: 37-1/2%.)

Surviving child or children conceived prior to retirement will receive the following:

1 child receives 25% of the final compensation
2 children share 37 1/2% of the final compensation
3+ children share 50% of the final compensation

Unless the death is service-connected in which case the eligible child or children will receive:

1 child receives 25% of the final compensation
2 children share 50% of the final compensation
3+ children share 75% of the final compensation

The maximum family benefit is 75% of the final compensation. If the sum of spousal benefit plus the children's benefit is greater than 75%, the children's benefit is reduced. Dependant children are paid to age 18 or to age 22 if full-time students.

## REMARRIAGE OF SPOUSE

If the employee is 55 at time of death and has twenty years of service, or the member is entitled to 30 years of service regardless of age, the spouse will retain allowance for life. If less than 20 years or under age 55, the spouse loses the allowance upon a remarriage, unless the person was an eligible surviving spouse as of October 1, 1999 or becomes an eligible surving spouse of a member who had retired as of October 1, 1999.

## MANAGEMENT

The System is under the management of a seven member Board of Administration consisting of two City Council persons, a Civil Service Commissioner, and two elected employees who are members of the retirement plan, a member who has retired under the provisions of the Plan and a member who holds a position in the City Administration at a level of Deputy Department Head or higher and who has experience in the investment or management of public funds, retirement funds, or institutional fund or endowment funds.

The Board of Administration is a policy-making body and responsible for the proper operation of the Plan. The Plan operates as an independent trust, separate and distinct from the City and other entities. The administration of the Plan is under its guidance and direction and is subject to such rules, regulations and directives as it may adopt from time to time. Members, except for public members, serve without compensation. The City Attorney provides legal advice and counsel.

# SUMMARY OF THE PRINCIPAL PLAN PROVISIONS (Continued)

## ADMINISTRATION

A full-time Director is employed by the Board. He serves as Secretary and Chief Executive Officer to the Board of Administration. The Fund pays the cost of the personnel who are employed for the purpose of managing the Retirement Plan. It also pays any directly related administrative costs.

Bankers Trust is employed as custodian of fund assets and collector of investment income.

## ACTUARIAL SOUNDNESS

Plan and benefit provisions are periodically reviewed to assure continuing actuarial soundness.

## INVESTMENT AUTHORITY AND POLICY

The investment authority is broad and flexible, allowing maximum utilization of the System's resources. Nationally known investment advisory services including Alliance Capital; Bank of Ireland; Boston Partners; Brandes Investment Partners; Brinson Partners; Chicago Capital Management; Crabbe Huson Group (monitored by Brinson Partners as of 3/1/01); Credit Suisse; GE Asset Management; Globalt; MIG Realty Advisors; New Amsterdam Partners; PMRealty Advisors; Provident Investment Counsel; Rhumbline; Seix Investment Advisors; Woodford Capital Management; and Zurich Scudder are retained for full-time investment counsel. William A. Mercer, Inc. is retained as the pension consultant.

## COST OF LIVING

The Board of Administration determines the change in the cost of living (COL) each year using the December Consumer Price Index for the San Francisco-Oakland Metropolitan Area published by the Bureau of Labor Statistics of the United States Department of Labor. The Board determines the change to be effective beginning April first of each year. A maximum of 3% is granted with any excess accumulated for use in future years. An amendment to the cost-of-living provisions to provide a flat 3% adjustment will be effective February 1, 2002. Survivors will be paid their first COL increase as if they were a new retiree according to the above schedule.

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# II.
# FINANCIAL SECTION

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# INDEPENDENT AUDITOR'S REPORT

Macias, Gini & Company LLP

The Board of Administration
City of San Jose Police and Fire Department
Retirement Plan

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the City of San Jose Police and Fire Department Retirement Plan (the Plan), as of June 30, 2001 and 2000, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Plan as of June 30, 2001 and 2000, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The data designated as other supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

The other data included in this report, designated as the investment, actuarial and statistical sections in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on such data.

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
August 24, 2001

Sacramento • Los Angeles • Fresno • San Francisco Bay Area

# COMBINING STATEMENT OF PLAN NET ASSETS
## As of June 30, 2001 and 2000
## (In Thousands)

| | 2001 | | | |
|---|---|---|---|---|
| | Pension benefits | Post-employment healthcare benefits | Total | 2000 |
| ASSETS | | | | |
| Receivables: | | | | |
| Employee contributions | $ 288 | $ 46 | $ 334 | $ 287 |
| Employer contributions | 442 | 41 | 483 | 585 |
| Brokers and others | 20,524 | 345 | 20,869 | 18,275 |
| Accrued investment income | 9,819 | 167 | 9,986 | 10,128 |
| Total receivables | 31,073 | 599 | 31,672 | 29,275 |
| Investments, at fair value: | | | | |
| Securities and other | 1,273,833 | 21,586 | 1,295,419 | 1,363,871 |
| Real estate | 157,701 | 2,780 | 160,481 | 150,192 |
| Loaned securities for cash and noncash collateral | 237,601 | 4,026 | 241,627 | 211,565 |
| Securities lending collateral | 219,613 | 3,721 | 223,334 | 175,022 |
| Total investments | 1,888,748 | 32,113 | 1,920,861 | 1,900,650 |
| Total assets | 1,919,821 | 32,712 | 1,952,533 | 1,929,925 |
| LIABILITIES: | | | | |
| Payable to brokers | 52,950 | 897 | 53,847 | 59,603 |
| Securities lending collateral, due to borrowers | 219,613 | 3,721 | 223,334 | 175,022 |
| Other liabilities | 3,851 | 71 | 3,922 | 3,968 |
| Total liabilities | 276,414 | 4,689 | 281,103 | 238,593 |
| NET ASSETS HELD IN TRUST FOR: | | | | |
| Pension benefits | 1,643,407 | - | 1,643,407 | 1,661,509 |
| Postemployment healthcare benefits | - | 28,023 | 28,023 | 29,823 |
| Total net assets (A schedule of funding progress is presented on page 32.) | $1,643,407 | $ 28,023 | $1,671,430 | $1,691,332 |

See accompanying notes to financial statements.

# COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
## For the Fiscal Year Ended June 30, 2001 and 2000
## (In Thousands)

| | 2001 | | | |
|---|---|---|---|---|
| | Pension benefits | Post-emplymt healthcare benefits | Total | 2000 |
| ADDITIONS: | | | | |
| Contributions: | | | | |
| Employee | $ 13,383 | $ 2,159 | $ 15,542 | $ 15,374 |
| Employer | 22,157 | 2,515 | 24,672 | 30,187 |
| Total contributions | 35,540 | 4,674 | 40,214 | 45,561 |
| Investment income (loss): | | | | |
| Net appreciation (depreciation) in fair value of investments | (61,801) | (1,753) | (63,554) | 60,014 |
| Interest income | 45,471 | 787 | 46,258 | 42,811 |
| Dividend income | 10,821 | 188 | 11,009 | 10,826 |
| Net rental income | 6,575 | 115 | 6,690 | 6,586 |
| Less investment expense | (5,697) | (104) | (5,801) | (5,673) |
| Net investment income (loss), before securities lending income | (4,631) | (767) | (5,398) | 114,564 |
| Securities lending income (loss): | | | | |
| Earnings | 11,309 | 192 | 11,501 | 6,716 |
| Rebates | (10,461) | (177) | (10,638) | (6,221) |
| Fees | (256) | (4) | (260) | (148) |
| Net securities lending income (loss) | 592 | 11 | 603 | 347 |
| Net investment income (loss) | (4,039) | (756) | (4,795) | 114,911 |
| Total additions | 31,501 | 3,918 | 35,419 | 160,472 |
| DEDUCTIONS: | | | | |
| Retirement benefits | 45,699 | - | 45,699 | 40,974 |
| Healthcare insurance premiums | - | 5,685 | 5,685 | 4,649 |
| Death benefits | 1,772 | - | 1,772 | 1,689 |
| Refund of contributions | 615 | - | 615 | 194 |
| Administrative expenses and other | 1,517 | 33 | 1,550 | 1,019 |
| Total deductions | 49,603 | 5,718 | 55,321 | 48,525 |
| Net increase (decrease) | (18,102) | (1,800) | (19,902) | 111,947 |
| NET ASSETS HELD IN TRUST FOR PENSION & POSTEMPLOYMENT HEALTHCARE BENEFITS | | | | |
| Beginning of year | 1,661,509 | 29,823 | 1,691,332 | 1,579,385 |
| End of year | $ 1,643,407 | $ 28,023 | $ 1,671,430 | $ 1,691,332 |

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS
# For the Fiscal Years Ended June 30, 2001 and 2000

## NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the City of San Jose Police and Fire Department Retirement Plan (the Plan) is provided for general information purposes only. Employees and members should refer to the City of San Jose Municipal Code for more complete information.

### *(a) General*

The Plan, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1961 and last amended June 19, 2001, to provide retirement benefits for employees of the Police and Fire Department of the City of San Jose (the City). The Plan is considered to be a part of the City's financial reporting entity and is included in the City's general-purpose financial statements as a pension trust fund. The Plan is administered by the Director of Retirement Service, an employee of the City, under the direction of a Board of Administration. The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided by the City.

All sworn officers of the City's Police and Fire Department are required to be members of the Plan. Total payroll amounted to approximately $175,221,000 and $167,212,000 for 2001 and 2000, respectively. Covered payroll amounted to approximately $157,666,000 and $146,540,000 in 2001 and 2000, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2001 and 2000, employee membership data related to the Plan was as follows:

| | 2001 | 2000 |
|---|---|---|
| Defined Benefit Pension Plan: | | |
| Retirees and beneficiaries currently receiving benefits | 1,179 | 1,118 |
| Terminated vested members not yet receiving benefits | 37 | 34 |
| Active members | 2,109 | 2,057 |
| Total | 3,325 | 3,209 |
| Postemployment Healthcare Plan: | | |
| Retirees and beneficiaries currently receiving benefits | 1,123 | 1,065 |
| Terminated vested members not yet receiving benefits | 7 | 4 |
| Active members | 2,109 | 2,057 |
| Total | 3,239 | 3,126 |

The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

# NOTES TO FINANCIAL STATEMENTS (Continued)
# For the Fiscal Years Ended June 30, 2001 and 2000

## NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

### *(b) Pension Benefits*

An employee with 10 or more years of service who resigns and leaves his/her contributions in the Plan; an employee who reaches the normal retirement age of 55 with 20 years of service; an employee of age 50 with 25 years of service; an employee of any age with 30 years of service; or an employee of age 70 with no service requirement is entitled to monthly pension benefits equal to 2.5% of their final salary for each year of service up to 20 years. For each year of service after 20 years, an employee is entitled to 3% of their final average monthly salary up to a maximum benefit of 80% of their final compensation. For those that retired on or after February 4, 2000 (or separated by, for deferred vested), final compensation is multiplied by 4% thereafter. There is a maximum of 85% (30 years of service equals 85%).

Final compensation is the average monthly salary during the highest 12 consecutive months of service, limited to 108% of salary paid during the 12 months immediately preceeding the last 12 months of service. In addition, retirement benefits are adjusted for an annual cost-of-living allowance (COLA). The current maximum increase in the COLA is 3% per year. Effective February 1, 2001, COLA will be a flat 3%.

If employees terminate employment before completing 10 years of service, the right to receive their portion of the accumulated plan benefits attributable to the City's contributions is forfeited; however, an employee's accumulated contribution plus 2% interest per annum is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the Plan. In the case of reciprocity, however, the member may leave contributions in the Plan with less than ten years of service.

Effective September 30, 1994, the Plan entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal benefits to members. In certain situations, this agreement results in improved retirement benefits for members who move from one eligible retirement system to another.

### *(c) Death Benefits*

An annual annuity of up to 37.5% of an employee's final compensation is paid to a surviving spouse until remarriage if: (1) an employee's death is service related; or (2) an employee's death is non-service related and occurs with at least 20 years of service; or (3) a retiree dies who was retired from service or who received a service related disability. Optional Retirement Allowances are available. For those that retire on or after February 4, 2000, the surviving spouse of a member who is entitled to a retirement benefit greater than 75% of final compensation gets a spousal benefit equal to 50% of the member up to a maximum of 42.5% of final compensation.

# NOTES TO FINANCIAL STATEMENTS (Continued)
# For the Fiscal Years Ended June 30, 2001 and 2000

## NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

Additionally, an annual benefit for dependent children up to 18 years of age, or up to 22 years of age if a full-time student, is paid at a rate of 25% of final compensation per child with a maximum family benefit of 75% of final compensation if death is service related.

If an employee' s death is non-service related and the employee has at least 2 years of service, the Plan allows for an annual annuity of 24% of the employee's final compensation for the first 2 years of service, plus 0.75% for each year thereafter, to be paid to his/her surviving spouse until remarriage (maximum of 37.5% of final compensation). These benefits are also paid to the surviving spouse of a retiree on a non-service related disability. Additionally, annual benefits for dependent children up to 18 years of age, or 22 years of age if a full-time student, are as follows:

- One child - 25% of final compensation
- Two children - 37.5% of final compensation
- Three or more children - 50% of final compensation

The maximum annual benefit paid to a family under any circumstances is 75% of final compensation. If the employee has no spouse or children, a lump sum equal to the greater of the employee's accumulated contributions or $1,000 is paid to his/her estate.

### *(d) Disability Benefits*

If an employee suffers a service related disability before retirement, an annual benefit is paid equal to the greater of: (1) 50% of final compensation; or (2) 2.5% of final compensation, multiplied by the number of years of service (maximum of 30 years). For members with 20 or more years of service, the monthly retirement allowance is the final compensation multiplied by 2 ½% multiplied by years of service up to 20 years and by 3% for the next five years. For those that retired on or after February 4, 2000, final compensation is multiplied by 4% thereafter. There is a maximum of 85% (30 years of service equals 85%).

If an employee with at least 2 years of service suffers a non-service related disability, an annual benefit is paid equal to 32% of final compensation for the first 2 years of service plus 1% of final compensation for each successive year, up to a maximum of 50% of final compensation for an employee with up to 20 years of service. For members with 20 or more years of service, the monthly retirement allowance is the final compensation multiplied by 2 ½% multiplied by years of service up to 20 years and by 3% for the next five years. For those that retired on or after February 4, 2000, final compensation is multiplied by 4% thereafter. There is a maximum of 85% (30 years of service equals 85%).

# NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Fiscal Years Ended June 30, 2001 and 2000

### NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

#### *(e) Postemployment Healthcare Benefits*

The City of San Jose Municipal Code provides that retired employees with 15 years or more of service, their survivors, or those retired employees who are receiving a pension benefit of at least 37.5% of final compensation are entitled to payment of 100% of the lowest priced medical insurance plan available to an active police and fire employee.

#### *(f) Plan Termination*

In the event the Plan is terminated, there is no provision for the distribution of net assets.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *(a) Basis of Accounting*

The financial statements of the Plan are prepared on the accrual basis of accounting. Contributions are recognized as revenue in the period in which employee services are performed. Benefits and refunds of contributions are recognized when due and payable under the provisions of the Plan. Activities of the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are accounted for separately. It is required that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the disclosed amount of additions and deletions during the reporting periods. Actual results could differ from those estimates.

#### *(b) Investments*

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value. The fair value of real estate investments is based on independent appraisals.

Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned. Rental income is recognized as earned, net of expenses.

# NOTES TO FINANCIAL STATEMENTS (Continued)
# For the Fiscal Years Ended June 30, 2001 and 2000

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) *Plan Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits*

The Plan is required by the City of San Jose Municipal Code to establish various reserves in the plan net assets (fund balance). The Defined Benefit Pension Plan net assets are allocated between the Retirement Fund (which includes postemployment healthcare benefits) and the Cost-of-Living, Fund. As of June 30, 2001, the net assets, totaling $1,671,430,000 on a combined basis for both the Retirement Fund and the Cost-of-Living Fund, is allocated as follows (in thousands):

| | Retirement Fund | Cost-of-Living Fund | Total 2001 | Total 2000 |
|---|---|---|---|---|
| Employee contributions | $ 107,118 | $ 32,518 | $ 139,636 | $ 129,940 |
| Designated for unrealized gains on investments held | 75,693 | 27,922 | 103,615 | 175,308 |
| General reserve | 1,042,594 | 385,585 | 1,428,179 | 1,386,084 |
| Total | $ 1,225,405 | $ 446,025 | $ 1,671,430 | $1,691,332 |

### (d) *Allocation of Investment Income*

Earnings on investments, excluding unrealized gains and losses are recorded first in the general reserve category of fund balance. An allocation is made biweekly from the general reserve category to the employee contributions category of fund balance based on the balance in that account at an annual rate of 2%, as specified by the City of San Jose Municipal Code. Any earnings in excess of 2% remain in the general reserve category.

### (e) *Reclassifications*

Certain prior year balances were classified to conform with the current year presentation. The reclassification has no effect on the financial position or results of operations.

## NOTE 3 – INVESTMENTS

The Plan's investments for both the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are categorized to give an indication of the level of custodial risk assumed by the Plan at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Plan or its agent in the Plan's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a qualifying financial institution's trust department or agent in the Plan's name, where the financial institution acts as the Plan's counterparty. Category 3 includes uninsured and unregistered investments for which the securities are held by a broker or dealer, or by its agent, or by a qualifying financial institution's trust department or agent, but not in the Plan's name. There were no investments in Categories 2 or 3 as of June 30, 2001 and 2000.

# NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Fiscal Years Ended June 30, 2001 and 2000

### NOTE 3 – INVESTMENTS (Continued)

The categorization of the Plan's investments (both for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan) as of June 30, 2001 and 2000, was as follows (in thousands):

| | Fair Value | |
|---|---|---|
| | June 30, 2001 | June 30, 2000 |
| Category 1: | | |
| U.S. government securities: | | |
| Not on securities loan | $ 222,662 | $ 186,714 |
| Loaned securities for non cash collateral | 21,594 | 33,461 |
| Foreign government bonds | 72,651 | 87,731 |
| Domestic corporate bonds | | |
| Not on securities loan | 227,833 | 189,084 |
| Loaned securities for non cash collateral | 323 | 1,542 |
| Foreign corporate bonds | 61,992 | 53,630 |
| Domestic equity securities | | |
| Not on securities loan | 469,554 | 568,701 |
| Loaned securities for non cash collateral | 2,206 | 3,722 |
| Foreign equity securities | | |
| Not on securities loan | 165,214 | 187,717 |
| Loaned securities for non cash collateral | 2,352 | 2,820 |
| Uncategorized: | | |
| Investments held by broker-dealers under securities loans for cash collateral: | | |
| U.S. Treasury bonds and notes | 59,186 | 68,543 |
| U.S. government sponsored agencies | 3,897 | 11,650 |
| Foreign government bonds | 1,134 | - |
| Domestic corporate bonds | 30,403 | 23,284 |
| Foreign corporate bonds | 3,300 | - |
| Domestic equity securities | 100,878 | 44,956 |
| Foreign equity securities | 16,353 | 21,586 |
| Foreign Rights and Warrants | 457 | - |
| Short-term foreign currency investments | 590 | 882 |
| Collective short-term investment funds | 74,467 | 89,413 |
| Real estate investments | 160,481 | 150,192 |
| Securities lending collateral investment pool | 223,334 | 175,022 |
| Total investments | $ 1,920,861 | $1,900,650 |

# NOTES TO FINANCIAL STATEMENTS (Continued)
# For the Fiscal Years Ended June 30, 2001 and 2000

## NOTE 3 – INVESTMENTS (Continued)

The Plan's total investments, the following table presents the allocation as presented on the accompanying statements of defined benefit pension plan net assets and postemployment healthcare plan net assets as of June 30, 2001 and 2000 (in thousands):

| | June 30, 2001 | June 30, 2000 |
|---|---|---|
| Investments: | | |
| Defined Benefit Pension Plan | $ 1,888,748 | $ 1,867,350 |
| Postemployment Healthcare Plan | 32,113 | 33,300 |
| | $ 1,920,861 | $ 1,900,650 |

The collective short-term investment fund is used for overnight investment of all excess cash in the Plan's funds. It is invested by the Plan Custodian, and held in the Plan Custodian's name. This fund consists of:

- Short-term fixed obligations of the U.S. government or any federal agency, or of other issuers that are fully guaranteed by the U.S. government or a federal agency as to repayment of principal and the payment of interest;
- Repurchase agreements with major banks and U.S. government securities dealers that are collateralized by obligations of the U.S. government or a federal agency, or obligations fully guaranteed by the U.S. government or a federal agency; and
- Fully insured bank deposits.

The loaned securities represent securities on loan to brokers or dealers or other borrowers. The municipal code permits the use of a securities lending program with its principal custodian bank. The custodial agreement with the Plan Custodian authorizes such custodian to loan no more than 20% of the securities in the Plan's investment portfolio under such terms and conditions as the Plan Custodian deems advisable and to permit the loaned securities to be transferred into the name of the borrowers. The Plan receives a fee from the borrower for the use of the loaned securities. If the loaned securities are not returned by the borrower, the Plan Custodian is responsible for replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, the Plan Custodian is required to credit the Plan's account with the market value of such unreturned loaned securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the Plan or borrowers.

The loaned securities as of June 30, 2001, consisted of U.S. Treasury bonds and notes, securities of U.S. government sponsored agencies, domestic corporate bonds, foreign corporate bonds, foreign government bonds, domestic equity securities, and foreign equity securities. In return, the Plan receives collateral in the form of cash or securities at 102% to 105% of the principal plus accrued interest for reinvestment.

Securities lent at year-end for cash collateral are presented as uncategorized investments in the table on page 27.

# NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Fiscal Years Ended June 30, 2001 and 2000

### NOTE 3 – INVESTMENTS (Continued)

Securities lending collateral represents investments in a securities lending collateral investment pool purchased with cash collateral, as well as securities collateral that the Plan may not pledge or sell without a borrower default. The Plan does not match the maturities of cash collateral with the securities on loan.

As of June 30, 2001, the underlying securities loaned by the Plan as a whole amounted to approximately $241,627,000. The cash collateral and the noncash collateral totaled $223,334,000 and $27,216,000, respectively. As of June 30, 2000, the underlying securities loaned by the Plan as a whole amounted to approximately $211,564,000. The cash collateral and the noncash collateral totaled $175,023,000 and $42,834,000, respectively. The Plan has no exposure to credit risk related to the securities lending transactions as of June 30, 2001 and 2000.

Real estate investments include a warehouse, retail center, and two office buildings located in Northern California; an industrial complex, office building, and retail center in Southern California; apartment complexes in Houston, Texas, and in Colorado Springs, Colorado; office buildings in Denver, Colorado and in Oak Brook, Illinois; and an industrial park in Nashville, Tennessee. The properties located in California are jointly owned with the City's other retirement fund with the exception of one of the office buildings in Northern California (San Jose), which is solely owned by the Plan. The properties have leases with various terms.

The Plan has made investments in forward currency contracts, which are unrecorded commitments to purchase or sell stated amounts of foreign currency. Gains or losses on the disposition of the commitments are recorded at the time of settlement. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2001, total commitments in forward currency contracts to purchase and sell foreign currencies were $93,665,000 and $93,665,000, respectively, with market values of $92,621,000 and $93,210,000, respectively. As of June 30, 2000, the Plan had commitments in foreign currency contracts to purchase and sell foreign currencies of $69,231,000 and $69,231,000, respectively, with market values of $69,270,000 and $70,152,000, respectively.

### NOTE 4 – CONTRIBUTIONS - FUNDING POLICY

Contributions to the Defined Benefit Pension Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. Contributions to the Postemployment Healthcare Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due, over the next 10 years. The significant actuarial assumptions used to compute the actuarially

# NOTES TO FINANCIAL STATEMENTS (Continued)
# For the Fiscal Years Ended June 30, 2001 and 2000

## NOTE 4 – CONTRIBUTIONS - FUNDING POLICY (Continued)

determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan (see page 32).

Contribution rates for the City and the participating employees for 2001 and 2000 were established in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 1997 and 1999, and approved by the Police and Fire Retirement Plan Board of Administration.

The City and the participating employee contribution rates during the fiscal years ended June 30, 2001 and 2000 were as follows:

| | City | | Employee | |
|---|---|---|---|---|
| Period | Pension | Healthcare | Pension | Healthcare |
| 11/15/98 – 8/7/99 | 18.01% | 1.81% | 8.69% | 1.53% |
| 8/8/99 – 9/4/99 | 18.06 | 1.81 | 8.69 | 1.53 |
| 9/5/99 – 6/24/00 | 18.30 | 1.81 | 8.69 | 1.53 |
| 6/25/00 – Present | 14.00 | 1.60 | 8.43 | 1.36 |

Contributions to the Defined Benefit Pension Plan and the Postemployment Healthcare Plan made by the City and the participating employees totaled $35,540,000 and $4,674,000, respectively, for 2001 and $40,575,000 and $4,986,000, respectively, for 2000.

## NOTE 5 – CONCENTRATIONS

No investments in any one organization represent 5% of Plan net assets.

# REQUIRED SUPPLEMENTARY INFORMATION

# SCHEDULE OF FUNDING PROGRESS
# DEFINED BENEFIT PENSION PLAN
# (Unaudited - See accompanying independent auditor's report)
# (In Thousands)

## Funding Progress – GASB No 25

| Actuarial Valuation Date | Actuarial Value of Assets [1] (a) | Entry Age Actuarial Accrued Liability (AAL) [2] (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 6/30/1993 | $714,592 | $716,123 | $1,531 | 99.8% | $98,831 | 2% |
| 6/30/1995 | $854,414 | $828,739 | ($25,675) | 103.1% | $109,196 | -24% |
| 6/30/1997 [3] | $1,124,294 | $1,030,168 | ($94,126) | 109.1% | $129,850 | -72% |
| 6/30/1999 [4] | $1,440,117 | $1,249,014 | ($191,103) | 115.3% | $144,125 | -133% |
| 6/30/1999 [5] | $1,440,117 | $1,276,364 | ($163,753) | 112.8% | $144,125 | -114% |

Actuarial valuations have been performed biennially through June 30, 1999. The June 30, 2001 actuarial valuation will be available for the fiscal year 2001/02 report period.

(1) Excludes accounts payable and postemployment healthcare plan assets.
(2) Excludes postemployement healthcare liability.
(3) After reflection of the Arbitrator Decision to improve Retirement and Health Benefits in 1998, including the impact of FLSA pay.
(4) Before reflection of benefit improvements effective February 4, 2000.
(5) After reflection of benefit improvements effective February 4, 2000.

# SCHEDULE OF EMPLOYER CONTRIBUTIONS
# DEFINED BENEFIT PENSION PLAN
## (Unaudited - See accompanying independent auditor's report)
## (In Thousands)

| Fiscal year ended June 30, | Annual required employer contributions | Percentage contributed |
|---|---|---|
| 1996 | $ 23,601 | 100% |
| 1997 | 24,685 | 100% |
| 1998 | 23,643 | 100% |
| 1999 | 23,522 | 100% |
| 2000 | 27,321 | 100% |
| 2001 | 22,157 | 100% |

# NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
# DEFINED BENEFIT PENSION PLAN
## (Unaudited - See accompanying independent auditor's report)
## Year Ended June 30, 2001

| Description | Method/Assumption |
|---|---|
| Valuation date | June 30, 1999 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method for actuarial accrued liabilities | Level percentage of payroll |
| Remaining amortization period | 18 years, closed |
| Actuarial asset valuation method | 5 year smoothed market |
| Actuarial assumptions: | |
| Assumed rate of return on investments | 8% per annum |
| Postretirement mortality | The 1994 Male Group Annuity Mortality Table, with three year setback, is used for male members.<br>The 1994 Female Group Annuity Mortality Table with one year set forward, is used for female members. |
| Active service, withdrawal, death, disability service retirement | Based upon the June 30, 1999 Experience Analysis |
| Salary increases | 10.50% for employees for the first five years of service; graded increases thereafter ranging from 9.9% at age 25 to 4.6% at ages 60 and over. Of the total salary increases 4.50% is for inflation. |
| Cost-of-living adjustments | 3.00% a year |

# OTHER SUPPLEMENTAL INFORMATION

# COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS
## June 30, 2001
## (In Thousands)

| | Retirement Fund | Cost-of-Living Fund | Total |
|---|---|---|---|
| ASSETS | | | |
| Receivables: | | | |
| Employee contributions | $ 208 | $ 80 | $ 288 |
| Employer contributions | 247 | 195 | 442 |
| Brokers and others | 14,800 | 5,724 | 20,524 |
| Accrued investment income | 7,155 | 2,664 | 9,819 |
| Total receivables | 22,410 | 8,663 | 31,073 |
| Investments, at fair value: | | | |
| Securities and other | 924,873 | 348,960 | 1,273,833 |
| Real estate | 119,118 | 38,583 | 157,701 |
| Loaned securities for cash and noncash collateral | 172,482 | 65,119 | 237,601 |
| Securities lending collateral | 159,428 | 60,185 | 219,613 |
| Total investments | 1,375,901 | 512,847 | 1,888,748 |
| Total assets | 1,398,311 | 521,510 | 1,919,821 |
| LIABILITIES: | | | |
| Payable to brokers | 38,439 | 14,511 | 52,950 |
| Securities lending collateral, due to borrowers | 159,428 | 60,185 | 219,613 |
| Other liabilities | 3,062 | 789 | 3,851 |
| Total liabilities | 200,929 | 75,485 | 276,414 |
| Plan net assets held in trust for pension benefits | $ 1,197,382 | $ 446,025 | $ 1,643,407 |

# COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS
## For the Fiscal Year Ended June 30, 2001
## (In Thousands)

| | Retirement Fund | Cost-of-Living Fund | Total |
|---|---|---|---|
| ADDITIONS: | | | |
| Contributions: | | | |
| Employee | $ 9,685 | $ 3,698 | $ 13,383 |
| Employer | 15,013 | 7,144 | 22,157 |
| Total contributions | 24,698 | 10,842 | 35,540 |
| Investment income (loss): | | | |
| Net appreciation (depreciation) in fair value of investments | (74,011) | 12,210 | (61,801) |
| Interest income | 33,112 | 12,359 | 45,471 |
| Dividend income | 7,945 | 2,876 | 10,821 |
| Net rental income | 4,871 | 1,704 | 6,575 |
| Less investment expense | (4,293) | (1,404) | (5,697) |
| Net investment income (loss), before securities lending income | (32,376) | 27,745 | (4,631) |
| Securities lending income (loss): | | | |
| Earnings | 8,210 | 3,099 | 11,309 |
| Rebates | (7,594) | (2,867) | (10,461) |
| Fees | (186) | (70) | (256) |
| Net securities lending income (loss) | 430 | 162 | 592 |
| Total investment income (loss) | (31,946) | 27,907 | (4,039) |
| Total additions | (7,248) | 38,749 | 31,501 |
| DEDUCTIONS: | | | |
| Retirement benefits | 36,809 | 8,890 | 45,699 |
| Death benefits | 1,772 | - | 1,772 |
| Refund of contributions | 475 | 140 | 615 |
| Administrative expenses and other | 1,372 | 145 | 1,517 |
| Total deductions | 40,428 | 9,175 | 49,603 |
| Net increase (decrease) | (47,676) | 29,574 | (18,102) |
| PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS: | | | |
| Beginning of year | 1,245,058 | 416,451 | 1,661,509 |
| End of year | $ 1,197,382 | $ 446,025 | $ 1,643,407 |

# SCHEDULE OF ADMINISTRATIVE EXPENSES AND OTHER
## For Years Ended June 30, 2001 and 2000

| | 2001 | | | 2000 |
|---|---|---|---|---|
| | Original Budget | Actual | Variance Favorable (Unfavorable) | Actual |
| **Personnel Services:** | | | | |
| Permanent Staff Expense | $ 932,981 | $ 678,876 | $ 254,105 | $ 562,089 |
| Temporary Staff | 3,500 | 2,931 | 569 | - |
| **Total Personnel Services** | 936,481 | 681,807 | 254,674 | 562,089 |
| **Professional Services:** | | | | |
| Actuarial Services | 39,000 | 24,279 | 14,721 | 97,054 |
| Medical Services | 95,000 | 66,073 | 28,927 | 78,946 |
| Audit | 25,000 | 23,882 | 1,118 | 11,999 |
| Legal Counsel | 25,000 | 14,254 | 10,746 | 19,653 |
| Network Consultant | 20,000 | 2,920 | 17,080 | 7,354 |
| Software Development Consultant | 25,000 | 32,283 | (7,283) | 64,745 |
| Bus. Processes & Procedures | 121,800 | 120,582 | 1,218 | - |
| Pension Benefit Information | 800 | 888 | (88) | 449 |
| **Total Professional Services** | 351,600 | 285,161 | 66,439 | 280,200 |
| **Communication:** | | | | |
| Postage | 15,000 | 9,495 | 5,505 | 7,823 |
| Printing | 13,000 | 11,362 | 1,638 | 7,545 |
| Duplicating | 10,000 | 4,111 | 5,889 | 3,872 |
| Data Processing | 6,000 | 7,329 | (1,329) | 2,803 |
| Travel | 92,000 | 102,964 | (10,964) | 59,018 |
| **Total Communication** | 136,000 | 135,261 | 739 | 81,061 |
| **Structure and Equipment:** | | | | |
| Copier Lease | 11,900 | 3,865 | 8,035 | 2,484 |
| Copier Maintenance | 3,800 | 1,908 | 1,892 | 1,764 |
| Furniture | 50,000 | 45,191 | 4,809 | - |
| Moving Service | 5,000 | 2,610 | 2,390 | - |
| Equipment | 47,550 | 51,913 | (4,363) | 6,104 |
| Equipment Repair and Miscellaneous Services | 5,400 | 5,754 | (354) | 2,598 |
| Software Enhancements | 142,100 | 90,363 | 51,737 | 2,325 |
| Computer Hardware/Software | 50,000 | 43,168 | 6,832 | 6,647 |
| **Total Structure and Equipment** | 315,750 | 244,772 | 70,978 | 21,922 |
| **Miscellaneous:** | | | | |
| Office Expense | 30,000 | 14,458 | 15,542 | 15,787 |
| Dues/Subscriptions | 4,000 | 2,902 | 1,098 | 1,394 |
| Training | 30,000 | 33,568 | (3,568) | 25,139 |
| Board Stipend | 1,800 | 1,650 | 150 | - |
| Rent on Building | 125,000 | 150,426 | (25,426) | 31,080 |
| **Total Miscellaneous** | 190,800 | 203,004 | (12,204) | 73,400 |
| **Total Administrative Expenses and Other** | $ 1,930,631 | $ 1,550,005 | $ 380,626 | $ 1,018,672 |

# SCHEDULE OF INVESTMENT EXPENSES
## For Years Ended June 30, 2001 and 2000

| | 2001 | 2000 |
|---|---|---|
| Equity: | | |
| Domestic equity | $ 2,248,726 | $ 2,354,733 |
| International equity | 1,016,691 | 1,039,325 |
| Total equity | 3,265,417 | 3,394,058 |
| Fixed income: | | |
| Domestic fixed income | 788,552 | 625,491 |
| Global fixed income | 370,104 | 388,650 |
| Total fixed income | 1,158,656 | 1,014,141 |
| Real Estate | 1,109,105 | 948,199 |
| Cash (Custodian STIF) | 57,670 | 51,816 |
| Total investment managers' fees | 5,590,848 | 5,408,214 |
| Other investment service fees: | | |
| Investment consultant | 79,776 | 130,000 |
| Proxy voting | 15,225 | 18,358 |
| Custodian | 115,560 | 116,626 |
| Total other investment service fees | 210,561 | 264,984 |
| TOTAL INVESTMENT EXPENSES | $ 5,801,409 | $ 5,673,198 |

# SCHEDULE OF PAYMENTS TO CONSULTANTS
## For Years Ended June 30, 2001 and 2000

| FIRM | NATURE OF SERVICE | FEES 2001 | FEES 2000 |
|---|---|---|---|
| Deloitte & Touche | Policies and Procedures Consultant | $ 120,582 | $ - |
| KPMG Peat Marwick | External Auditors | - | 11,999 |
| LanMinds | Network Maintenance/Consultant | 2,920 | 7,354 |
| Levi, Ray & Shoup | Pension Admin. System Maintenance | 32,283 | 64,745 |
| Macias, Gini & Company, LLP | External Auditors | 23,882 | - |
| Palo Alto Medical/Other Medical | Medical Consultant | 66,073 | 78,946 |
| Pension Benefit Information | Reports on Deceased Benefit Receipients | 888 | 449 |
| Saltzman & Johnson | Legal Counsel | 14,254 | 19,653 |
| William Mercer, Inc. | Actuarial Consultant | 24,279 | 97,054 |
| **TOTAL** | | **$ 285,161** | **$ 280,200** |

# III.
# INVESTMENT SECTION

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# REPORT ON INVESTMENT ACTIVITY

MERCER
INVESTMENT
CONSULTING, INC.

September 18, 2001

Mr. Edward Overton
Secretary, Board of Administration
San Jose Police and Fire Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Dear Mr. Overton:

As expected, investment returns for the recent period were significantly lower than in previous years. For the fiscal year ending June 30, 2001, the total return of 0.2% was well ahead its Benchmark Index return of –3.3%. Maintaining a long-term perspective is important when dealing with retirement assets and the total return over the past 5-year period was 10.3% which is well above the actuarial assumption rate of 8.0%.

William M. Mercer Investment Consulting, Inc. calculates the time weighted total return for the total plan assets every quarter. That return is also compared with the "TUCS" Public Fund Universe. It is important to note that San Jose has historically implemented a more conservative asset allocation strategy than the average public fund. This conservative strategy paid off this year because the average public fund returned –5.4%! San Jose placed in the top decile of the public fund universe.

Mercer calculates and reviews the investment performance of the San Jose Police and Fire Retirement System quarterly. The calculations are based on custodial statements and are made in compliance with AIMR standards. As the System's independent investment consultant, Mercer also reconciles the calculations with the investment managers each quarter to ensure accuracy. Economic commentary is included in the reports to keep the Trustees informed of developments in the United States as well as globally.

The US economy continued to deteriorate during the first half of 2001. Excess inventories, declines in consumption and reduced capital spending led to a decline in industrial production for the first time since 1991. In response, the Federal Reserve cut interest rates by a total of 275 basis points in the first six months of 2001.

Because of the reduced interest rates, the fixed income market delivered positive returns during the last six months. The Lehman Brothers Aggregate Index gained 3.6% for the first half of 2001 and 11.2% for the one-year period ending June 30, 2001. The Plan's domestic fixed income managers earned 11.1% over the last twelve months. Their performance contributed the most to the total return. Although interest rates fell in the

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Los Angeles CA 90017

213 346 2200
Fax 213 346 2680

A Marsh & McLennan Company

# REPORT ON INVESTMENT ACTIVITY (Continued)

MERCER
INVESTMENT
CONSULTING, INC.

Mr. Edward Overton
September 18, 2001
Page 2

U.S., the global bond manager was less fortunate posting a –3.1% return which is identical to the return of the Salomon Smith Barney World Government Bond Index.

U.S. equities rebounded during the second quarter of 2001 but were unable to recover from the losses in the fourth quarter of the last year and the first quarter of 2001. Although the Plan's domestic equity managers delivered a –6.9% return, the Standard & Poor's 500 Index return for the twelve-month period ending June 30, 2001 was –14.8%.

The -12.5% fiscal year return of the Plan's international equity managers would appear to be poor but was actually in the top 17th percentile and well ahead of the EAFE Index return of –23.6%! Real estate investments helped to take the edge off of those returns by recording an 11.8% return.

As noted in last year's summary, the economic growth of the 90's was simply not sustainable so a downturn in the economy and the equity markets was not unexpected. While the Plan's recent results are disappointing, Mercer strongly believes that the current conservative asset allocation strategy followed by the Retirement Board will continue to benefit the Plan's long-term total return.

Sincerely,

Thomas J. Lightvoet

TJL/NK/LSP/ap

# STATEMENT OF INVESTMENT POLICY
# BOARD OF ADMINISTRATION
# POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

## GENERAL ENVIRONMENT

Investments in the San Jose Police and Fire Department Retirement Plan are subject to the restrictions specified in the San Jose Municipal Code 3.36.540. Further investment management guidelines are imposed by the Board of Administration.

## INVESTMENT GUIDELINES

### General

The Board Shall:

(1) Require that the Retirement System be actuarially sound to assure that all disbursement obligations will be met.

(2) Attempt to insure that investment earnings be sufficiently high to provide a funding source, along with contributions from City employees and the City, in order to offset liabilities in perpetuity.

(3) Strive for the highest total return on invested funds consistent with safety in accordance with accepted investment practices.

### Asset Allocation

The following policy has been identified by the Board of Administration as having the greatest expected investment return, and the resulting positive impact on asset values and funded status without exceeding a prudent level of risk. The Board determined this policy after evaluating the implications of increased investment return versus increased variability of return for a number of potential investment policies with varying commitments to stocks and bonds.

It shall be the policy of the Plan to invest its assets in accordance with the maximum and minimum range, valued at market, for each asset class as stated below:

| Asset Class | Minimum | Target | Maximum |
|---|---|---|---|
| Bonds | 25% | 35% | 60% |
| Bonds - Global | 0% | 10% | 15% |
| Stocks - U.S. | 30% | 35% | 45% |
| Stocks - International | 0% | 10% | 15% |
| Real Estate | 0% | 10% | 15% |

# STATEMENT OF INVESTMENT POLICY (Continued)

It is understood that the fund managers at any point in time may not be fully invested. However, managers are expected to be fully funded and cash positions in excess of 7% require the manager to notify the Board of Administration in writing. While the Plan's assets may be partially invested in cash equivalents, for asset allocation purposes these funds shall be considered invested in the asset classes of the respective managers. In turn, each manager's performance will be evaluated on the total amount of funds under its management.

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts may cause the asset mix to fall outside the policy range. Any divergence should be of a short-term nature. The Board of Administration will review the asset mix of the Plan on a quarterly basis and cause the asset mix to be rebalanced to within the policy range as necessary.

Investment managers may request temporary exemptions from guideline limits by submitting written requests to the Board of Administration for prior approval. For special situations, the Board of Administration can grant special exemptions from the guidelines. In no case can a manager actively exceed guideline limits without formal prior approval by the Board.

Diversification

Investment diversification is consistent with the intent to minimize the risk of large losses to the Plan. Consequently, the total fund will be constructed by the individual portfolio managers to attain prudent diversification in several asset classes. To ensure adequate diversification, no manager will hold more than 5% of its portion of the total Plan assets in any single security with the exception of government backed securities and real estate equity. As a general rule, Plan assets placed with an investment manager will not represent more than 10% of that manager's total assets.

Volatility

Consistent with the desire for adequate diversification, the investment policy is based on the assumption that the volatility (the standard deviation of returns) of the portfolio will be relative to that of the market. Consequently, it is expected that the volatility of a commitment-weighted composite of the market indices, e.g., S&P 500 Index for stocks and Lehman Brothers Aggregate Bond Index for bonds and U.S. T-Bills for cash, will be commensurate with the Plan's volatility.

Liquidity

Presently there is not a requirement to maintain significant liquid reserves for the payment of pension benefits. The Board has authorized the Board of Administration Secretary to review the projected cash flow requirements at least annually and indicate to investment managers the required liquidity.

Contributions are expected to be in excess of net benefit payments over the foreseeable future, resulting in a positive cash flow, which will be reinvested by the fund manager who receives the cash flow.

Fixed Income

The Board shall require that the majority of the fixed income portfolio be invested in high quality, (investment grade) marketable bonds as provided in Section 3.36.540. Whether a global fixed income manager is employed, or separate domestic and international fixed income managers are employed, they are to invest in accordance with the following guidelines:

## STATEMENT OF INVESTMENT POLICY (Continued)

(1) Portfolio investments will be composed primarily of fixed income securities (including short term obligations) denominated in either United States or foreign currencies. Securities may be issued by domestic or foreign governments, domestic or foreign government agencies and instrumentalities, international banks or other international organizations, corporations or other forms of business organizations.

(2) The investment manager may also purchase securities of other categories; including, options and financial futures contracts traded over-the-counter or on organized securities exchanges, commodities exchanges or Boards of Trade. These investments may be used within prudent limits to manage risk, lower transaction costs, or augment returns as long as leverage is not applied. Derivative securities should not be utilized by portfolio managers to materially increase a portfolio's duration as characterized by its stated investment style. The manager will invest the assets at such times, in such amounts and in such investments as the manager shall determine in its discretion.

(3) Deposits in banks or banking institutions, domestic or foreign, may be made. Because the fundamental objective is to enhance the rate of return calculated in U.S. dollars, and currency exchange gains and loses are included in the calculation of total return, currency hedging shall be permitted, at the discretion of the manager, to protect the value of specific investments in U.S. dollar terms.

(4) Forward or future contracts for foreign currencies may be entered into for hedging purposes or pending the selection and purchase of suitable investments in, or the settlement of any such securities transactions, as the case may be.

(5) All bonds and notes in which the assets are invested, and which mature one year or more from the date of original issues, shall carry a rating of "BBB" or better by either Standard & Poors or Moodys Investor Services; or, if unrated, shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Managers may, with prior written authorization, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB.

(6) The fund will be valued in United States dollars on the last business day of each month, and on such other "Valuation Dates" as the Board may deem appropriate. For valuation purposes, all foreign currency, foreign deposits and securities quoted in foreign currencies shall be converted into dollars pursuant to methods consistently followed and uniformly applied.

(7) The manager may invest a portion of the assets in commingled accounts with specific mandates such as high yield trust funds with prior approval by the Board.

# STATEMENT OF INVESTMENT POLICY (Continued)

Domestic Common Stock

The primary emphasis of the common stock portfolio will be on high quality, readily marketable securities offering potential for above average return as protection against inflation. Common stock investments are limited to those meeting all of the following criteria:

(1) Investment in any corporation shall not exceed 5% of the outstanding shares of the corporation.

(2) Not more than 5% of the total assets at market may be invested in preferred stocks.

(3) Not more than 5% of any Investment Manager's portfolio at market shall be invested in the common stock of any corporation, except when:
- The security has a weighting greater than 5% in the manager's benchmark and
- The manager has received prior written permission from the Director, Retirement Services. The Director will then inform the Investment Committee of any exceptions that were granted.

(4) The manager will invest the assets at such times, in such amounts and in such investments as the manager shall determine in its discretion.

(5) Approximately 15% of the domestic equity assets will be passively managed (indexed).

International Common Stock

(1) The portfolio will be invested primarily in non-U.S. common stocks. Investment in American Depository Receipts (ADR's) is permitted but they will not be considered U.S. equities. U.S. equities are not permitted. The maximum amount of international common stock to be held is 15% of the Fund's total assets valued at market. The Board will cause the asset mix to be rebalanced to remain within the 15% restriction. A maximum of 20% of a manager's international equity portfolio may be invested in emerging markets.

(2) Currency hedging will be permitted as part of a defensive strategy to protect the portfolio's underlying assets.

(3) Holding cash or cash equivalents, either U.S. or non-U.S., for the purpose of protecting the portfolio against perceived adverse equity market conditions abroad, will not be permitted. However, while the manager is expected to remain fully invested over time, cash and cash equivalent holdings will be permitted up to maximum of 7% of the manager's portfolio for the purpose of making country and security adjustments to the portfolio.

(4) To ensure proper diversification, the fund will be invested in a wide variety of economic sectors and countries. No one equity position will represent more than a total of 5% of the portfolio.

# STATEMENT OF INVESTMENT POLICY (Continued)

Real Estate

The Board may elect to invest in commercial, industrial, and residential real estate or real estate related debt instruments provided that:

(1) The real estate is defined as any real property within the United States improved by multi-family dwelling, industrial or commercial buildings.

(2) Real estate related debt instruments shall be defined as first mortgages.

(3) The fund shall at no time:

   (a) Invest directly or indirectly more than 25% of the fund's assets, valued at market, in real estate investment as defined hereinabove; nor,

   (b) Invest directly or indirectly more than 5% of the fund's assets, valued at market, in any one property, project, or debt instrument regardless of the manner of investment.

(4) The investment advisors employed by the Board to assist in the location and acquisition of real estate must bring their proposal to the Board for approval.

Credit Unions

No retirement fund assets shall be deposited in any such institution in excess of an amount insured by an agency of the Federal Government, and shall be made only if the rate of return and degree of safety offered are competitive with other investment opportunities.

Manager Discretion

Any manager who is engaged in or has a direct pecuniary interest in a business other than investment counseling, such as a broker or dealer in securities shall not be permitted to use such business with regard to the Plan assets without prior written approval by the Board.

Subject to these guidelines and policies, the Fund's Investment Managers have full discretion to sell, substantiate, redeem or convert securities as they deem advisable.

It is the intention of the Board to contract with an independent agency to vote domestic equity proxies according the plan proxy voting guidelines. However, international equity proxies are to be voted by the investment managers or any agent or service selected by the investment manager.

# STATEMENT OF INVESTMENT POLICY (Continued)

With the consent of the Board, compliance with the foregoing guidelines may be waived, either with respect to a specific transaction or transactions, or generally. The Board will, in addition, consult with the investment manager from time to time, at the investment manager's request, as to the continuing applicability of the guidelines and whether amendments may be appropriate.

## Performance Goals

In order to insure that investment opportunity available over a specific time period are fairly evaluated, the Board of Administration will utilize comparative performance statistics to evaluate investment results. Accordingly, each investment manager is expected to achieve the following minimum performance standards over a rolling five year time period or a full market cycle.

### Domestic Equity Managers

(1) Performance within the top half of the appropriate Mercer's Equity Style Universe.

(2) Net of fees, manager performance shall exceed the return of the appropriate benchmark by the following:
100 basis points for large-cap equity managers,
150 basis points for mid-cap equity managers, and
200 basis points for small-cap equity mangers.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the manager's benchmark index without a corresponding increase in performance above that index.

### Domestic Fixed Income Managers

(1) Performance within the top half of Mercer's Bond Funds Universe.

(2) Net of fees, manager performance shall exceed by 50 basis points, the return of the Lehman Brothers Aggregate Bond Index.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the Lehman Brothers Aggregate Bond Index without a corresponding increase in performance above the index.

# STATEMENT OF INVESTMENT POLICY (Continued)

International Equity Managers

(1) Performance within the top half of Mercer's International Equity Fund Universe.

(2) Net of fees, manager performance shall exceed by 150 basis points, the return of the Morgan Stanley EAFE Index for international equity managers.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the MSCI EAFE Index without a corresponding increase in performance above the index.

International Fixed Income Managers

(1) Performance above median in Mercer's International Bond Fund Universe.

(2) Net of fees, manager performance shall exceed by 75 basis points, the return of the Salomon Brothers World Government Bond Index.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the Salomon Brothers World Government Bond Index without a corresponding increase in performance above the index.

Real Estate Managers

(1) Performance above median in Mercer's Real Estate Funds Universe.

(2) Net of fees, manager performance shall exceed by 150 basis points, the return of the National Counsel of Real Estate Investment Fiduciaries (NCREIF) Classic Property Index or the NCREIF Classic Property Pacific Index for the portfolio with the majority of properties in California.

(3) The risk associated with the manager's portfolio must not exceed that of the NCREIF or NCREIF Pacific Index without a corresponding increase in performance above the index.

Periodic Reviews of Manager Performance

The performance of each manager will be reviewed versus its benchmark every quarter. These benchmarks consist of both asset class indexes and peer group universes. Each manager's performance should exceed their passive index benchmark and each manager should be above the median of an appropriate universe.

As good managers will occasionally have poor performance for several periods, there is some grace period permitted for performance to improve. Conversely, the performance will be reviewed with sufficient frequency to permit identification of substandard performance as quickly as possible.

# STATEMENT OF INVESTMENT POLICY (Continued)

Procedure:

1. Each manager is expected to produce performance equal to or better than their benchmark index for one year, three year, and five year cumulative periods.

   Managers are considered to achieve this objective if their performance exceeds their benchmark for two of the three periods of one year or longer.

2. Each manager is expected to produce above median performance in an appropriate peer group for one year, three year, and five year cumulative periods.

   Managers are considered to achieve this objective if they rank above the median manager for two of the three periods of one year or longer and the performance in the third period is not less than the 62nd percentile.

3. If a manager has less than five years performance, we will review the periods reported by the consultant, such as one quarter, one year and since inception.

   If the manager exceeds the passive benchmark for 2 out of 3 of these periods, the manager has met one objective. If the manager ranks above the median for 2 out of 3 of these periods and the third period ranking is above the 62nd percentile, then the manager has met the second objective.

4. If there is a failure to meet any objectives, the following rules should be applied:

   a) A manager's failure to meet either objective for one quarter is not a cause for concern.

   b) A manager's failure to meet either objective for two successive quarters will place the manager on the watch list. If a manager is consistently on the borderline, sometimes meeting objectives and sometimes failing to meet objectives, the manager may be placed on the watch list.

   c) A manager's failure to meet either objective for three successive quarters merits probationary status.

   d) A manager's failure to meet either objective for four successive quarters should result in review by the Investment Committee. Upon a critical review of the manager, the Investment Committee may grant up to one year further for improvement to take place upon officially recognizing the substandard performance and explicitly granting an extension of time for improvement. At the time of granting such extraordinary extension, the Investment Committee may delegate to the Director, Retirement Services, the authority to direct the manager to immediately suspend all trading except as specifically directed by the Director. If there has been improvement in performance, the Investment Committee may extend the probation beyond one year.

## STATEMENT OF INVESTMENT POLICY (Continued)

During the period of any such extraordinary extension, the investment staff should monitor the portfolio and transactions of such manager to ensure that excessive risk is not being taken in an attempt to "catch up". If in the judgment of the Director, such manager is managing the portfolio in such a manner that indicates that excessive risk is being taken, the Director should use the previously delegated authority to terminate or restrict the manager's activities.

e) A manager with less than five years should be given additional time to improve performance over the benchmark. However, if their performance against the peer group continues to be below the 62nd percentile of the universe, they may be terminated prior to reaching 5 years of performance with the Plan.

5. In order to be taken off probation and placed on the watch list, a manager must meet both objectives for 2 successive quarters (i.e. March and June). In order to be taken off the watch list, a manager must meet both objectives for an additional 2 successive quarters (i.e. September and December).

Extraordinary Reviews of Managers

If an event occurs within a manager's organization or is likely to impact the manager's organization, the Director, Retirement Services, shall make a determination whether such event compromises the investment process or in any other manner might negatively impact the management of the Plan's assets.

Such events would include but are not limited to:

a) Loss of any significant investment professional directly involved with the management of Plan assets or of such significance to the manager's overall investment process as to call into question the future efficacy of that process.

b) Sale, offer for sale, or offer to purchase the manager's business to/by another entity.

c) Significant financial difficulty or loss of a sizable portion of the manager's assets under management.

d) Filing or announcement of regulatory action of non-trivial nature, particularly that involving violations of the Investment Advisers Act of 1940, the Securities Act of 1933, or the Securities Exchange Act of 1934, or any state Blue Sky Law to which the manager is subject.

e) Any other event which in the discretion of the Director appear to put the Fund's assets at risk of loss, either actual or opportunity.

Any of these events may trigger a due diligence visit to the firm by the Investment Committee, being placed on the watch list, being put on probation or termination depending on the seriousness of the event and the probability of impacting the management of the Plan's assets.

# INVESTMENT PROFESSIONALS

## INVESTMENT MANAGERS

### DOMESTIC EQUITIES:

Alliance Capital Management
Large Cap Growth
New York, NY

Boston Partners Asset Management
Large Cap Value
Los Angeles,CA

Brinson Partners, Inc.
Large Cap Value
Chicago, IL

GE Asset Management
Large Cap Growth
Stamford, CT

Globalt, Inc.
Large Cap Growth
Atlanta, GA

New Amsterdam Partners
Large Cap Growth
New York, NY

Provident Investment Counsel, Inc.
Small Cap Growth
Pasadena, CA

Rhumbline
S&P 500 Index
Boston, MA

Woodford Capital Management
Large Cap Growth
Los Altos, CA

### INTERNATIONAL EQUITIES:

Bank of Ireland Asset Management
Dublin, Ireland

Brandes Investment Partners
San Diego, CA

### DOMESTIC FIXED INCOME:

Chicago Capital Management
Chicago, IL

Scudder Kemper Investments, Inc.
Chicago, IL

Seix Investment Advisors
Woodcliff Lake, NJ

### GLOBAL FIXED INCOME:

Credit Suisse
London, England

### REAL ESTATE:

MIG Realty Advisors
Cleveland, OH

PM Realty Advisors
Newport Beach, CA

## CONSULTANT

William M. Mercer, Inc.
Los Angeles, CA

## CUSTODIAN

Deutsche Bank (Bankers Trust)
New York, NY

# GROSS PERFORMANCE SUMMARY BY ASSET CLASS
## Periods Ending June 30, 2001

| | One Year | Three Years | Five Years |
|---|---|---|---|
| **TOTAL FUND** | **0.2%** | **6.4%** | **10.3%** |
| Benchmark | -3.3% | 5.2% | 9.8% |
| Mercer Balanced Universe Median | 0.6% | 6.2% | 10.1% |
| TUCS Public Fund Universe Median | -5.4% | 4.8% | 10.4% |
| **TOTAL DOMESTIC FIXED INCOME** | **11.1%** | **5.7%** | **7.2%** |
| Lehman Brothers Aggegate Bond Index | 11.2% | 6.2% | 7.5% |
| Mercer Fixed Income Core Median | 11.3% | 6.2% | 7.6% |
| **TOTAL GLOBAL FIXED INCOME** | **-3.1%** | **0.6%** | **2.3%** |
| Salomon Smith Barney World Gov't Bond Index | -3.1% | 1.3% | 2.4% |
| Mercer Global Fixed Income Unhedged Median | -2.3% | 0.7% | 3.2% |
| **TOTAL DOMESTIC EQUITY** | **-6.9%** | **4.9%** | **12.0%** |
| S&P 500 Index | -14.8% | 3.9% | 14.5% |
| Mercer Managed Equity Median | -4.3% | 7.7% | 15.1% |
| **TOTAL INTERNATIONAL EQUITY** | **-12.5%** | **8.4%** | **11.4%** |
| EAFE Index | -23.6% | -1.2% | 2.9% |
| Mercer International Equity Median | -23.6% | 1.8% | 7.0% |
| **TOTAL REAL ESTATE** | **11.8%** | **13.1%** | **12.1%** |
| NCREIF Property Index | 11.2% | 11.9% | 12.7% |
| Mercer Real Estate Median | 11.7% | 11.4% | 12.7% |

# NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER
## Periods Ending June 30, 2001

The table below details the rates of return for the Plan's investment managers over various time periods. Returns for one year or greater are annualized. Each "+" represents a benchamark the manager has out performed. Source: Mercer Investment Performance Evaluation Report June 30, 2001.

| | One Year | Three Years | 5 Years |
|---|---|---|---|
| **DOMESTIC FIXED INCOME** | | | |
| Zurich Scudder | **10.6%** | **5.8%** | **7.2%** |
| Lehman Brothers Aggegate Bond Index + 50 bps | 11.8% | 6.8% | 8.0% |
| Mercer Fixed Income Core Median | 11.3% | 6.2% | 7.6% |
| | **6 Months** | **One Year** | **Inception (10/99)** |
| Chicago Capital Management | **3.8%** + | **11.1%** | **8.4%** |
| Lehman Brothers Aggegate Bond Index + 50 bps | 3.9% | 11.8% | 9.1% |
| Mercer Fixed Income Core Median | 3.6% | 11.3% | 8.6% |
| Seix Investment Advisors | **3.9%** + | **11.7%** + | **8.8%** + |
| Lehman Brothers Aggegate Bond Index + 50 bps | 3.9% | 11.8% | 9.1% |
| Mercer Fixed Income Core Median | 3.6% | 11.3% | 8.6% |
| | **One Year** | **Three Years** | **5 Years** |
| **GLOBAL FIXED INCOME** | | | |
| Credit Suisse Investment Management | **-3.4%** | **0.3%** | **2.0%** |
| Salomon Smith Barney World Gov't Bond Index + 75 bps | -2.3% | 2.1% | 3.2% |
| Mercer Global Fixed Income Unhedged Median | -2.3% | 0.7% | 3.2% |
| **DOMESTIC EQUITY** | | | |
| Rhumbline Advisors (Index) | **-13.9%** + | **4.4%** + | **14.8%** + |
| S&P 500 Index | -14.8% | 3.9% | 14.5% |
| Mercer Managed Equity Median | -4.3% | 7.7% | 15.1% |
| Boston Partners (Large Cap Value) | 24.9% ++ | 6.8% + | 14.4% |
| Russell 1000 Value Index + 100 bps | 11.4% | 6.4% | 16.1% |
| Mercer Large Cap Value Universe Median | 12.9% | 6.8% | 14.9% |
| Brinson Partners (Large Cap Value) | **12.2%** + | **2.7%** | **11.8%** |
| Russell 3000 Index + 100bps | -13.0% | 5.3% | 14.9% |
| Mercer Large Cap Value Universe Median | 12.9% | 6.8% | 14.9% |

# NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

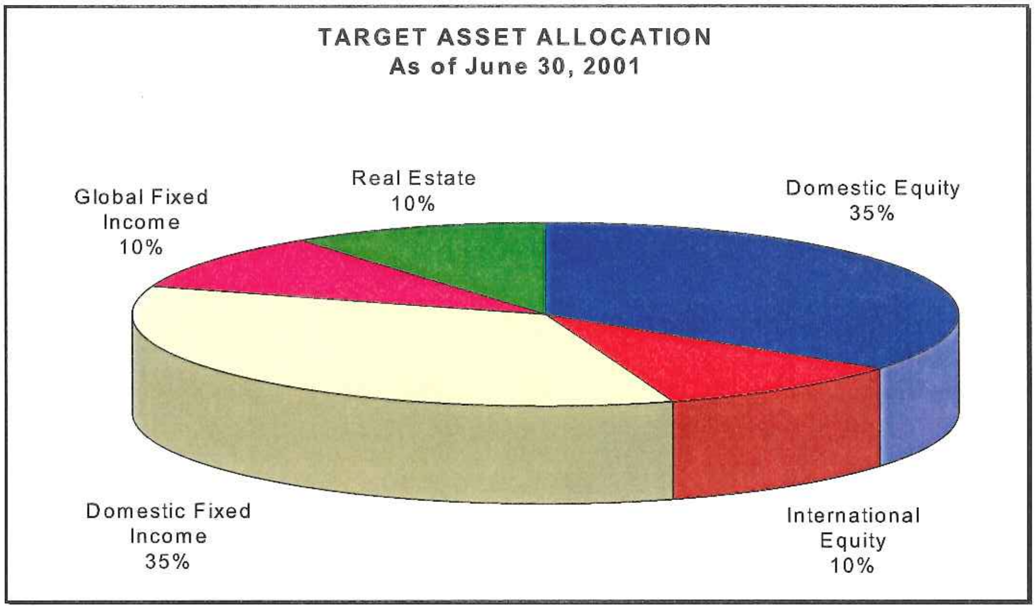
| | One Quarter | Six Months (Inception 1/01) | |
|---|---|---|---|
| GE Asset Management (Large Cap Value) | **3.4%** | **-4.2%** | |
| Russell 1000 Value Index + 100 bps | 5.1% | -0.8% | |
| Mercer Large Cap Value Universe Median | 5.1% | 0.6% | |
| | **One Year** | **Three Years** | **Five Years** |
| New Amsterdam Partners (Large Cap Growth) | **-6.4% ++** | **7.5% ++** | **17.1% ++** |
| S&P 500 + 100 bps | -13.9% | 4.9% | 15.6% |
| Mercer Large Cap Growth Universe Median | -26.0% | 5.5% | 15.2% |
| | | | |
| Woodford Capital Management | **-27.6% +** | **2.1% +** | **10.7% +** |
| S&P 500 / Barra Growth Index | -31.7% | -2.8% | 10.4% |
| Mercer Large Cap Growth Universe Median | -26.0% | 5.5% | 15.2% |
| | **6 Months** | **One Year** | **Three Years (Inception 7/98)** |
| Alliance Capital Management (Large Cap Growth) | **-13.6% +** | **-31.2% +** | **-0.8%** |
| Russell 1000 Growth Index + 100 bps | -13.8% | -35.4% | 1.7% |
| Mercer Large Cap Growth Universe Median | -13.1% | -26.0% | 5.5% |
| | | | |
| Globalt, Inc. (Large Cap Growth) | **-15.8%** | **-36.2%** | **-3.3%** |
| Russell 1000 Growth Index + 100 bps | -13.8% | -35.4% | 1.7% |
| Mercer Large Cap Growth Universe Median | -13.1% | -26.0% | 5.5% |
| | **One Year** | **Three Years** | **Inception (1/98)** |
| Brinson Monitored/Crabbe Huson (Sm. Cap Value) | **17.4%** | **1.7%** | **-0.2%** |
| Russell 2000 Value Index + 200 bps | 30.8% | 6.9% | 7.2% |
| Mercer Small Cap Value Universe Median | 31.1% | 9.3% | 9.6% |
| | | | |
| Provident Investment Counsel (Small Cap Growth) | **-27.6%** | **12.1% ++** | **14.8% ++** |
| Russell 2000 Growth Index + 200 bps | -21.7% | 4.2% | 5.5% |
| Mercer Small Cap Growth Universe Median | -19.8% | 12.0% | 13.1% |
| | **One Year** | **Three Years** | **Inception (1/97)** |
| **INTERNATIONAL EQUITY** | | | |
| Bank of Ireland Asset Management | **-20.1% ++** | **1.7% +** | **6.5% +** |
| EAFE Index + 150 bps | -22.4% | 0.2% | 4.4% |
| Mercer International Equity Median | -23.6% | 1.8% | 6.8% |
| | | | |
| Brandes Investment Partners | **-8.2% ++** | **12.1% ++** | **16.3% ++** |
| EAFE Index + 150 bps | -22.4% | 0.2% | 4.4% |
| Mercer International Equity Median | -23.6% | 1.8% | 6.8% |

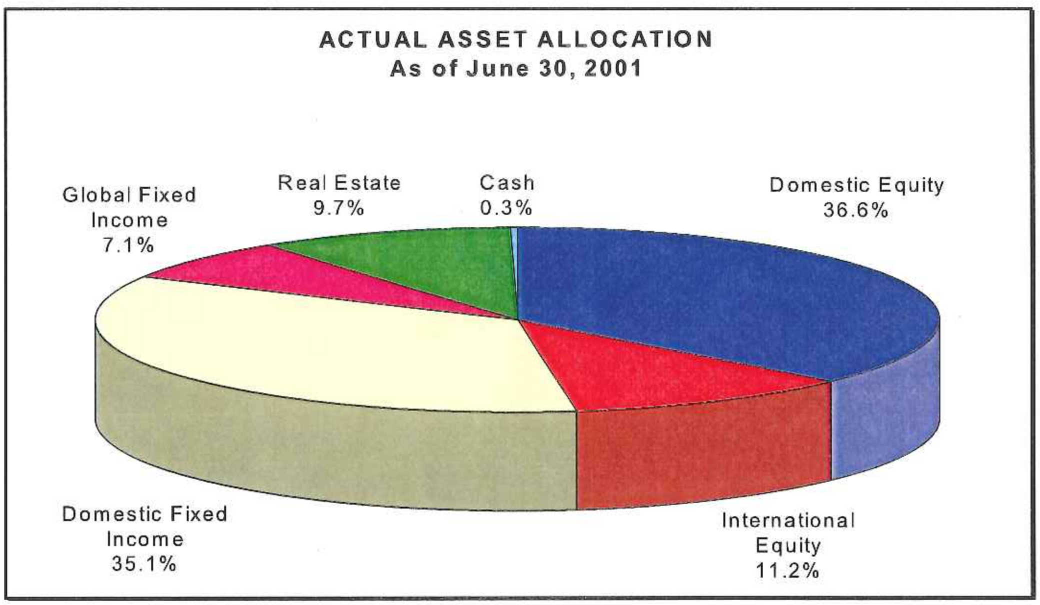
# NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

| | One Year | Three Years | Five Years |
|---|---|---|---|
| **REAL ESTATE** | | | |
| MIG Realty Advisors | **9.5%** | **12.7%** + | **11.5%** |
| NCREIF Property Index + 150 bps | 12.6% | 13.4% | 14.3% |
| Mercer Real Estate Median | 11.7% | 11.4% | 12.7% |

| | 6 Months | One Year | (Inception 7/98) |
|---|---|---|---|
| PM Realty Advisors | **4.1%** | **12.4%** + | **10.1%** |
| NCREIF Property Index + 150 bps | 5.3% | 12.6% | 13.4% |
| Mercer Real Estate Median | 4.4% | 11.7% | 11.4% |

# ASSET ALLOCATION
## Target Vs. Actual

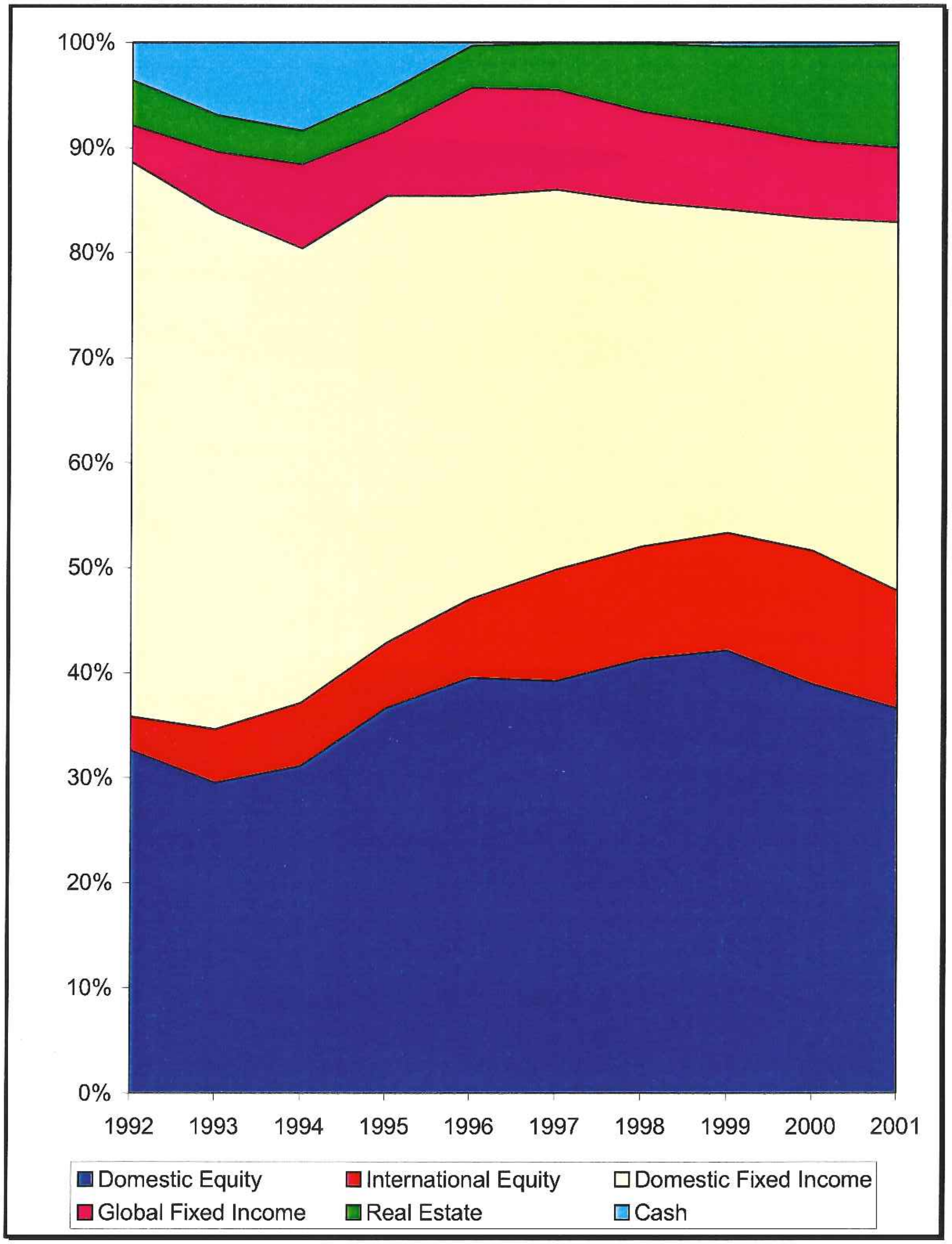


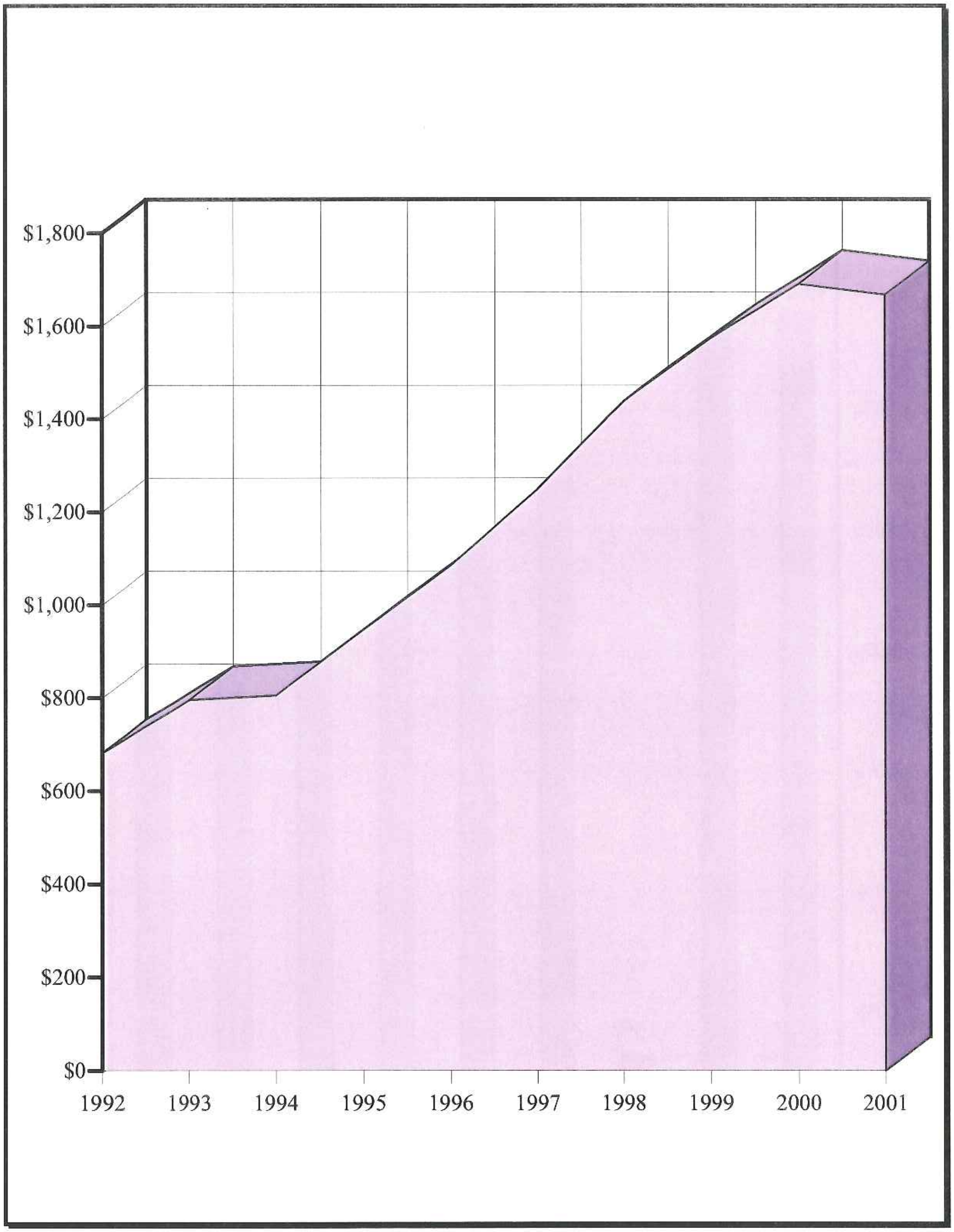

ACTUAL ASSET ALLOCATION
As of June 30, 2001 (In Millions)

| | |
|---|---|
| Domestic Equity | $609.84 |
| International Equity | 187.04 |
| Domestic Fixed Income | 585.53 |
| Global Fixed Income | 118.94 |
| Real Estate | 161.40 |
| Cash | 5.20 |
| TOTAL | $1,667.95 |

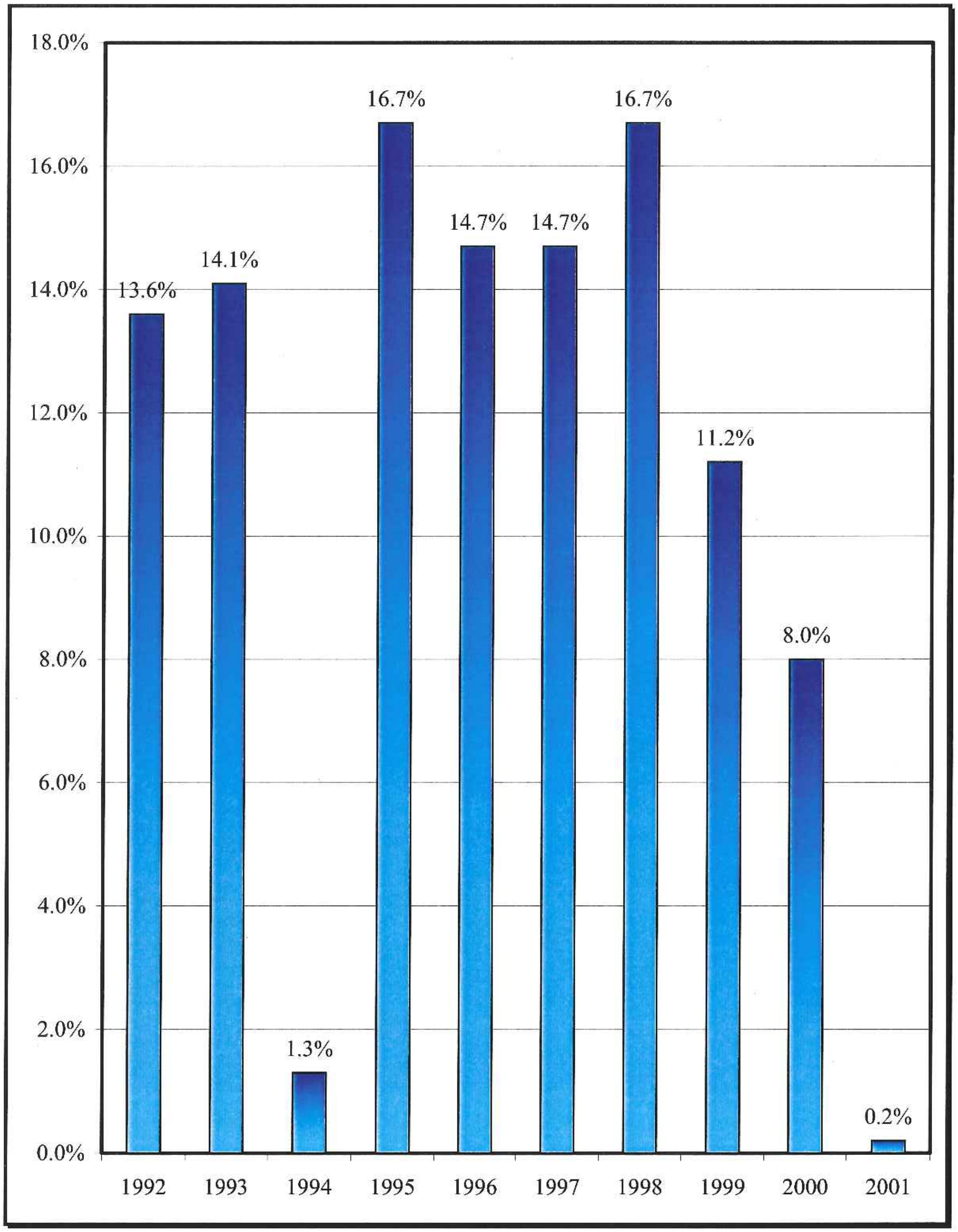
## HISTORICAL ASSET ALLOCATION (Actual)
## June 1991 - June 2001



## MARKET VALUE GROWTH OF PLAN ASSETS
## For Ten Years Ended June 30, 2001
## (In Millions of Dollars)



# HISTORY OF PERFORMANCE
## (Based on Market Value)
## For Fiscal Years 1991 - 2001



# LIST OF LARGEST ASSETS HELD

LARGEST STOCK HOLDINGS (By Market Value)
June 30, 2001

| Shares | Country | Description | Market Value |
|---|---|---|---|
| 223,453 | United States | MICROSOFT CORP | $16,312,069 |
| 271,006 | United States | CITIGROUP INC | $14,319,957 |
| 291,794 | United States | GENERAL ELECTRIC CO | $14,224,957 |
| 104,274 | United States | EXXON MOBIL CORP | $9,108,334 |
| 224,780 | United States | PFIZER INC | $9,002,439 |
| 173,210 | United States | JOHNSON & JOHNSON | $8,660,500 |
| 820,167 | United Kingdom | UNILVER ORD | $6,908,734 |
| 125,300 | United States | AOL TIME WARNER | $6,640,900 |
| 81,650 | United States | FREDDIE MAC | $5,556,282 |
| 300,150 | United States | CISCO SYSTEMS | $5,462,730 |

LARGEST BOND HOLDINGS (By Market Value)
June 30, 2001

| Par Value | Country | Description | Interest Rate | Maturity Date | Market Value in $USD |
|---|---|---|---|---|---|
| 18,640,000.000 | U.S. | FEDERAL NATL MTG ASSN | 7.500 | 07/17/30 | 19,018,615.68 |
| 13,937,794.990 | U.S. | FEDERAL HOME LN MTG CORP | 6.500 | 03/01/31 | 13,724,267.97 |
| 10,453,955.420 | U.S. | FEDERAL NATL MTG ASSN | 7.000 | 04/01/31 | 10,499,639.21 |
| 9,559,955.040 | U.S. | FEDERAL HOME LN MTG CORP | 7.500 | 10/01/30 | 9,760,044.90 |
| 8,937,008.970 | U.S. | FEDERAL NATL MTG ASSN | 6.000 | 05/01/16 | 8,802,953.84 |
| 6,342,033.680 | U.S. | FEDERAL HOME LN MTG CORP | 8.000 | 09/01/30 | 6,546,120.32 |
| 6,195,000.000 | U.S. | FORD CREDIT AUTO OWNER | 5.120 | 10/15/04 | 6,223,992.60 |
| 6,590,954.710 | U.S. | KFW INTERNATIONAL | 1.000 | 12/20/04 | 6,154,889.41 |
| 5,531,770.740 | U.S. | FEDERAL NATL MTG ASSN | 7.000 | 03/01/15 | 5,625,091.71 |
| 5,808,792.770 | U.S. | FEDERAL NATL MTG ASSN | 6.000 | 12/01/28 | 5,595,493.90 |

A complete list of portfolio holdings is available upon request.

# SCHEDULE OF FEES AND COMMISSIONS
## For the Year Ended June 30, 2001

### INVESTMENT FEES

| | Assets Under Mgt. at Market Value | Fees | Basis Points |
|---|---|---|---|
| Investment Managers' Fees: | | | |
| Domestic Equity Managers | $ 609,840,000 | $ 2,248,726 | 37 |
| International Equity Managers | 187,040,000 | 1,016,691 | 54 |
| Domestic Fixed Income Managers | 585,530,000 | 788,552 | 13 |
| Global Fixed Income Managers | 118,940,000 | 370,104 | 31 |
| Real Estate Managers | 161,400,000 | 1,109,105 | 69 |
| Cash (STIF) | 5,200,000 | 57,670 | N/A |
| **Total Investment Managers' Fees** | **$ 1,667,950,000** | **$5,590,848** | 34 |
| Other Investment Service Fees: | | | |
| Investment Consultant | N/A | $ 79,776 | N/A |
| Proxy Voting | N/A | 15,225 | N/A |
| Custodian | N/A | 115,560 | N/A |
| **Total Investment Managers' Fees** | | **$ 210,561** | |

### COMMISSIONS

| BROKERAGE FIRM | NUMBER OF SHARES TRADED | TOTAL COMMISSIONS | COMMISSION PER SHARE |
|---|---|---|---|
| ABD SECURITIES CORPORATION | 4,846 | 243.53 | 0.05025 |
| ABN AMRO BANK N.V. | 1,350 | 7,200.68 | 5.33384 |
| ABN AMRO EQUITIES (UK) LTD | 82,874 | 1,395.10 | 0.01683 |
| ABN AMRO EQUITIES AUSTRALIA LTD | 43,550 | 474.48 | 0.01090 |
| ABN AMRO SECURITIES (USA) INC. | 227,800 | 1,220.80 | 0.00536 |
| ADAMS HARKNESS & HILL, INC | 1,600 | 96.00 | 0.06000 |
| ALLEN & COMPANY INCORPORATED | 3,800 | 228.00 | 0.06000 |
| ARNHOLD & S. BLEICHROEDER, INC | 1,967 | 108.22 | 0.05502 |
| AUTRANET INC | 108,812 | 5,449.60 | 0.05008 |
| AUTRANET INC. - FIXED INCOME | 310,000 | 48.44 | 0.00016 |
| BAIRD (ROBERT W.) & CO., INC. | 19,300 | 965.00 | 0.05000 |
| BANCAMERICA ROBERTSON STEPHENS | 27,462 | 1,523.43 | 0.05547 |
| BANK OF NEW YORK | 24,150 | 2,269.96 | 0.09399 |
| BANQUE NATIONALE DE PARIS / PARIBAS | 6,600 | 3,964.09 | 0.60062 |
| BANQUE PARIBAS / PARIS | 0 | 9.14 | 0.00000 |
| BARING SECURITIES INC | 11,751 | 598.33 | 0.05092 |
| BEAR, STEARNS & CO | 421,872 | 20,455.29 | 0.04849 |
| BERNSTEIN (SANFORD C) & CO INC | 606,112 | 28,809.72 | 0.04753 |
| BHF SECURITIES CORPORATION | 7,100 | 355.00 | 0.05000 |

# SCHEDULE OF FEES AND COMMISSIONS (Continued)

## COMMISSIONS

| BROKERAGE FIRM | NUMBER OF SHARES TRADED | TOTAL COMMISSIONS | COMMISSION PER SHARE |
|---|---|---|---|
| BLAIR (WILLIAM) & CO. | 67,368 | 3,825.77 | 0.05679 |
| BOSTON INSTITUTION SERVICES | 54,100 | 2,705.00 | 0.05000 |
| BRIDGE TRADING CO | 141,923 | 6,900.53 | 0.04862 |
| BROADCOURT CAPITAL CORP | 52,500 | 2,665.00 | 0.05076 |
| BROCKHOUSE & COOPER / MONTREAL | 200.000 | 33.26 | 0.16630 |
| BROWN | 157,100 | 7,855.00 | 0.05000 |
| BROWN BROTHERS HARRIMAN & CO | 9 | 0.54 | 0.06000 |
| BT ALEX BROWN INC | 66,250 | 3,758.23 | 0.05673 |
| B-TRADE SERVICES LLC | 115,350 | 2,133.00 | 0.01849 |
| BUCKINGHAM RESEARCH | 7,442 | 374.31 | 0.05030 |
| C. L. GLAZER & COMPANY | 22,051 | 1,102.55 | 0.05000 |
| CANTOR, FITZGERALD & CO., INC. | 112,241 | 4,044.06 | 0.03603 |
| CAPITAL INST SVCS | 95,294 | 4,722.88 | 0.04956 |
| CAZENOVE AND CO. / LONDON | 407,251 | 5,584.00 | 0.01371 |
| CAZENOVE ASIA LIMITED | 9,000 | 199.10 | 0.02212 |
| CHAPMAN & CO | 7,100 | 355.00 | 0.05000 |
| CHICAGO | 10,200 | 510.00 | 0.05000 |
| CHICAGO CORPORATION | 61,881 | 3,412.65 | 0.05515 |
| CIBS OPPENHEIMER CORP | 293,410 | 15,766.81 | 0.05374 |
| COMMERZBANK AG INVESTMENT BANKING | 21,000 | 253.32 | 0.01206 |
| COMMERZBANK CAPITAL MARKETS | 84,050 | 2,998.11 | 0.03567 |
| COMMERZBANK LONDON | 16,335 | 219.48 | 0.01344 |
| CONNING & CO | 17,215 | 863.83 | 0.05018 |
| CORRESPONDENT SERVICES CORP | 4,600 | 230.00 | 0.05000 |
| COUNTY SECURITIES CORP USA | 43,552 | 2,380.12 | 0.05465 |
| COWEN & CO | 170,222 | 9,262.02 | 0.05441 |
| CREDIT LYONNAIS | 6,400 | 320.00 | 0.05000 |
| CREDIT LYONNAIS SECURITIES | 16,300 | 346.11 | 0.02123 |
| CREDIT LYONNAIS SECURITIES (ASIA) LTD | 175,150 | 572.13 | 0.00327 |
| CREDIT SUISSE FIRST BOSTON | 277,527 | 2,943.56 | 0.01061 |
| CREDIT SUISSE FIRST BOSTON / HONG KONG | 63,000 | 971.47 | 0.01542 |
| CREDIT SUISSE FIRST BOSTON GLOBAL | 13,900 | 57.61 | 0.00414 |
| CREDIT SUISSE FIRST BOSTON HK BRANCH | 10,000 | 270.11 | 0.02701 |
| CS FIRST BOSTON AUSTRALIA EQUITIES LTD | 14,800 | 125.76 | 0.00850 |
| DAIN BOSWORTH INCORPORATED | 17,531 | 1,027.00 | 0.05858 |
| DAVIDSON (D.A.) & CO., INC. | 35,800 | 1,790.00 | 0.05000 |
| DAVIS, MENDEL & REGENSTEIN INC | 25,500 | 1,530.00 | 0.06000 |
| DEUTSCHE BANK AG / LONDON | 153,793 | 1,331.32 | 0.00866 |
| DEUTSCHE BANK SECURITIES. INC. | 387,269 | 9,929.84 | 0.02564 |
| DEUTSCHE MORGAN GRENFELL SECS AUST | 12,438 | 87.42 | 0.00703 |
| DLJ INTERNATIONAL SECURITIES | 2,945 | 189.00 | 0.06418 |
| DOMINION SECURITIES / AMES INC | 34,100 | 1,705.00 | 0.05000 |
| DONALDSON LUFKIN AND JENRETTE / LONDON | 97,400 | 4,777.01 | 0.04905 |
| DRESEDNER KLEINWORT BENSON NORTH | 7,000 | 4,253.88 | 0.60770 |
| DRESEDNER KLEINWORT WASSERSTEIN | 104,530 | 2,220.09 | 0.02124 |
| DRESEDNER SECURITIES / NEW YORK | 61,900 | 2,476.00 | 0.04000 |
| EBERSTADT (F.) & CO., INC. | 89,900 | 4,724.00 | 0.05255 |
| EDWARDS (A.G.) & SONS, INC. | 9,169 | 460.80 | 0.05026 |

# SCHEDULE OF FEES AND COMMISSIONS (Continued)

## COMMISSIONS

| BROKERAGE FIRM | NUMBER OF SHARES TRADED | TOTAL COMMISSIONS | COMMISSION PER SHARE |
|---|---|---|---|
| ERNST & CO | 369 | 20.30 | 0.05501 |
| EVEREN CLEARING CORP | 3,300 | 165.00 | 0.05000 |
| EXECUTION SERVICES INCORP | 85,134 | 4,280.70 | 0.05028 |
| FACTSET DATA SYSTEMS, INC | 94,400 | 4,720.00 | 0.05000 |
| FACTSET DATA SYSTMES INC/BCC | 66,200 | 3,310.00 | 0.05000 |
| FECHTOR, DETWILER & CO., INC. | 11,900 | 595.00 | 0.05000 |
| FIDELITY CAPITAL MARKETS/NFSC | 46,300 | 2,315.00 | 0.05000 |
| FIRST ALBANY CORPORATION | 13,300 | 729.00 | 0.05481 |
| FIRST BOSTON CORPORATION | 674,065 | 36,262.33 | 0.05380 |
| FIRST PACIFIC STOCKBROKERS / MELBOURNE | 9,150.000 | 183.93 | 0.02010 |
| FIRST TENNESSEE SECURITIES | 1,771 | 97.39 | 0.05499 |
| FIRST UNION CAPITAL MKTS | 43,400 | 2,201.00 | 0.05071 |
| FOX-PITT KELTON / LONDON | 750.000 | 61.60 | 0.08213 |
| FOX-PITT KELTON INC. | 22,500 | 1,125.00 | 0.05000 |
| FP MAGLIO & CO., INC. | 67,170 | 2,015.10 | 0.03000 |
| FRANK RUSSELL SECURITIES INC | 13,700 | 685.00 | 0.05000 |
| FRIEND LH WEINRESS & FRANKSON | 3,400 | 170.00 | 0.05000 |
| FROST SECURITIES | 87,800 | 5,232.00 | 0.05959 |
| GERARD KLAUER | 51,412 | 2,674.67 | 0.05202 |
| GOLDIS-PITTSBURG INSTIT SERVIC | 15,400 | 770.00 | 0.05000 |
| GOLDMAN SACHS AND CO | 598,413 | 33,540.50 | 0.05605 |
| GOLDMAN SACHS EQUITY SECS / LONDON | 9,450 | 61.01 | 0.00646 |
| GOLDMAN SACHS INT'L / LONDON | 59,650 | 2,379.45 | 0.03989 |
| GOLDSMITH & HARRIS | 7,400 | 370.00 | 0.05000 |
| GOODBODY STOCKBROKERS | 16,850 | 153.45 | 0.00911 |
| GREENSTREET ADVISORS | 19,400 | 970.00 | 0.05000 |
| GRUNTAL & CO LLC | 13,957 | 731.63 | 0.05242 |
| HAMBRECHT & QUIST INCORPATION | 4,900 | 278.00 | 0.05673 |
| HENDERSON BROTHERS, INC. | 8,700 | 261.00 | 0.03000 |
| HOARE GOVETT LTD. / LONDON | 37,908 | 575.59 | 0.01518 |
| HOEFER & ARNETT | 5,000 | 250.00 | 0.05000 |
| HOENIG & CO INC / LONDON | 329,700 | 4,889.54 | 0.01483 |
| HOENIG & CO. INC. | 219,300 | 11,223.00 | 0.05118 |
| HOENIG FAR EAST / HONG KONG | 395,470 | 7,219.00 | 0.01825 |
| HONG KONG AND SHANGHAI BANKING | 80.000 | 888.53 | 11.10663 |
| HOWARD,WEIL,LABOUISSE,FRIEDRIC | 11,984 | 604.13 | 0.05041 |
| HSBC INVESTMENT BANK PLC | 605,643 | 2,715.85 | 0.00448 |
| HSBC SECURITIES (USA) INC. | 1,112,693 | 15,156.32 | 0.01362 |
| INFERENTIAL FOCUS | 16,500 | 825.00 | 0.05000 |
| INSTINET CORPORATION | 1,284,059 | 29,390.16 | 0.02288 |
| INTERSEC RESEARCH | 2,300 | 115.00 | 0.05000 |
| INTERSTATE SECURITIES CORP | 18,100 | 923.00 | 0.05099 |
| INVEMED ASSOCIATES INC. | 700 | 42.00 | 0.06000 |
| INVESTMENT TECHNOLOGY GRP INC. | 508,604 | 13,551.96 | 0.02665 |
| ISI GROUP | 19,060 | 1,008.00 | 0.05288 |
| J P MORGAN SEC EQUTIY GROUP | 498,532 | 26,626.22 | 0.05341 |
| JARDINE FLEMING SECURITIES LTD | 52,000 | 459.10 | 0.00883 |

# SCHEDULE OF FEES AND COMMISSIONS (Continued)

## COMMISSIONS

| BROKERAGE FIRM | NUMBER OF SHARES TRADED | TOTAL COMMISSIONS | COMMISSION PER SHARE |
|---|---|---|---|
| JB WERE AND SON (HEAD OFFICE) | 7,360.000 | 109.81 | 0.01492 |
| JEFFERIES & COMPANY, INC | 208,664 | 10,934.04 | 0.05240 |
| JOHNSON RICE | 59,700 | 2,985.00 | 0.05000 |
| JONES & ASSOCIATES | 3,300 | 165.00 | 0.05000 |
| JP MORGAN / LONDON | 84,497 | 3,482.05 | 0.04121 |
| JP MORGAN SECURITIES INC | 123,300 | 3,720.44 | 0.03017 |
| KEEFE BRUYETTE & WOODS INC | 42,060 | 2,117.13 | 0.05034 |
| KING (C.L.) & ASSOCIATES, INC. | 1,797 | 89.85 | 0.05000 |
| LAZARD FRERES & CO | 2,091 | 71.96 | 0.03441 |
| LEGG MASON | 125,237 | 6,302.54 | 0.05032 |
| LEHMAN BROTHERS INC. | 310,340 | 18,215.89 | 0.05870 |
| LEHMAN BROTHERS INTERNATIONAL EUROPE | 288,648 | 5,785.46 | 0.02004 |
| LEWCO SEC AGT/WERTHEIM | 11,792 | 592.06 | 0.05021 |
| LIQUIDNET INC | 12,300 | 246.00 | 0.02000 |
| LYNCH JONES | 2,213,263 | 79,152.90 | 0.03576 |
| MACQUARIE EQUITIES LTD / NEW YORK | 364,100 | 2,990.86 | 0.00821 |
| MAGNA SECURITIES CORPORATION | 48,500 | 2,155.00 | 0.04443 |
| MCDONALD & COMPANY SECURITIES | 82,883 | 3,681.07 | 0.04441 |
| MERRILL LYNCH AND CO., INC. | 22,000 | 133.37 | 0.00606 |
| MERRILL LYNCH INTERNATIONAL | 376,472 | 5,760.20 | 0.01530 |
| MERRILL LYNCH INTL EQUITIES | 30,900 | 1,109.75 | 0.03591 |
| MERRILL LYNCH PIERCE FENNER & SMITH | 1,160,593 | 63,841.50 | 0.05501 |
| MERRILL LYNCH PROF CLR CRP | 109,384 | 5,446.46 | 0.04979 |
| MIDWEST | 600 | 30.00 | 0.05000 |
| MILLER TABAK | 3,900 | 195.00 | 0.05000 |
| MORGAN GRENFELL AND CO. LTD. | 99,596 | 2,166.43 | 0.02175 |
| MORGAN STANLEY & CO. INTERNATIONAL | 135,672 | 2,928.03 | 0.02158 |
| MORGAN STANLEY & CO., INC. | 1,569,748 | 49,703.53 | 0.03166 |
| MORGAN, KEEGAN & COMPANY INC. | 5,349 | 268.19 | 0.05014 |
| NATIONSBANC MONT SEC LLC SAN FRAN | 191,389 | 10,570.42 | 0.05523 |
| NEEDHAM & CO | 8,430 | 343.66 | 0.04077 |
| NEUBERGER & BERMAN | 13,200 | 660.00 | 0.05000 |
| NOMURA SECURITIES INTERNATIONAL INC. | 449,000 | 2,148.63 | 0.00479 |
| O'NEIL, WILLIAM AND CO INC | 62,900 | 3,145.00 | 0.05000 |
| ORD MINNETT / SYDNEY | 56,785 | 589.93 | 0.01039 |
| ORMES CAPITAL MARKETS INC | 2,316 | 127.39 | 0.05500 |
| PACIFIC GROWTH EQUITIES | 1,000 | 60.00 | 0.06000 |
| PAINE WEBBER JACKSON & CURTIS | 98,900 | 5,005.00 | 0.05061 |
| PARIBAS CORP | 7,400 | 370.00 | 0.05000 |
| PARKMIX LTD / NEW YORK | 0 | 178.64 | 0.00000 |
| PAULSEN DOWLING SEC | 44,498 | 2,231.90 | 0.05016 |
| PCS SECURITIES INC | 32,725 | 1,636.25 | 0.05000 |
| PERSHING | 45,738 | 2,301.95 | 0.05033 |
| PERSHING LIMITED | 425,500 | 1,652.35 | 0.00388 |
| PERT | 1,971,017 | 102,277.97 | 0.05189 |
| PIPER,JAFFRAY & HOPWOOD INC | 18,450 | 1,001.50 | 0.05428 |
| PRUDENTIAL | 900 | 27.00 | 0.03000 |

# SCHEDULE OF FEES AND COMMISSIONS (Continued)

## COMMISSIONS

| BROKERAGE FIRM | NUMBER OF SHARES TRADED | TOTAL COMMISSIONS | COMMISSION PER SHARE |
|---|---|---|---|
| PRUDENTIAL BACHE SECURITIES | 355,104 | 19,142.88 | 0.05391 |
| PULSE TRADING | 26,800 | 670.00 | 0.02500 |
| PUR. | 3,100 | 155.00 | 0.05000 |
| RAGEN MACKENZIE, INC. | 10,500 | 525.00 | 0.05000 |
| RAYMOND,JAMES & ASSOCIATES INC | 31,515 | 1,702.82 | 0.05403 |
| ROBERT VAN SECURITIES, INC | 31,000 | 1,550.00 | 0.05000 |
| ROBINSON HUMPHREY | 54,300 | 3,258.00 | 0.06000 |
| ROCHDALE SECURITIES CORP | 12,111 | 605.55 | 0.05000 |
| SALOMON BROS HK LTD | 172,000 | 186.49 | 0.00108 |
| SALOMON BROS INC / NEW YORK | 96,400 | 3,373.23 | 0.03499 |
| SALOMON BROTHERS INTERNATIONAL | 283,873 | 2,670.80 | 0.00941 |
| SALOMON SMITH BARNEY INC | 94 | 832.83 | 8.85989 |
| SBC WARBURG DILLON READ ASIA LTD | 234,625 | 1,677.02 | 0.00715 |
| SBC WARBURG DILLON READ INC | 537,400 | 27,386.09 | 0.05096 |
| SBC WARBURG SECURITIES | 7,050 | 123.95 | 0.01758 |
| SCHWAB (CHARLES) & CO. INC. | 29,900 | 1,543.00 | 0.05161 |
| SCOTT & STRINGFELLOW INC | 5,929 | 314.45 | 0.05304 |
| SEAPORT SECURITIES | 2,685 | 107.40 | 0.04000 |
| SEIDLER | 8,100 | 486.00 | 0.06000 |
| SESLIA | 714,048 | 35,472.71 | 0.04968 |
| SIMMONS & CO. | 2,426 | 127.48 | 0.05255 |
| SK INTERNATIONAL SECURITIES | 1,599 | 87.96 | 0.05501 |
| SMITH BARNEY INC. | 552,644 | 29,710.21 | 0.05376 |
| SOUNDVIEW FINANCIAL GROUP | 43,771 | 2,211.92 | 0.05053 |
| SOUTHCOAST CAPITAL, INC | 15,100 | 857.00 | 0.05675 |
| SOUTHTRUST BK IPA | 469 | 25.80 | 0.05501 |
| SOUTHWEST SECURITIES INC. | 3,700 | 185.00 | 0.05000 |
| SPEAR, LEEDS & KELLOGG | 15,700 | 471.00 | 0.03000 |
| STEPHENS INC. | 7,700 | 462.00 | 0.06000 |
| SUTRO AND COMPANY INC | 6,200 | 372.00 | 0.06000 |
| THE CITATION GROUP | 4,200 | 210.00 | 0.05000 |
| THE MALANCHI GROUP INC. | 5,400 | 324.00 | 0.06000 |
| THOMAS WEISEL PARTNERS | 92,885 | 5,567.18 | 0.05994 |
| THOMSON INSTL SERVICE | 66,600 | 3,302.00 | 0.04958 |
| U.S.CLEARING CORP | 4,700 | 235.00 | 0.05000 |
| UBS SECURITIES AG | 300,939 | 8,780.18 | 0.02918 |
| UBS WARBURG NEW ZEALAND EQUITIES LTD | 23,623 | 109.27 | 0.00463 |
| UBS WARBURG SECURITIES LTD | 1,000 | 61.35 | 0.06135 |
| US CLEARING INSTITUTIONAL TRAD | 219,511 | 10,975.55 | 0.05000 |
| VAN KASPER & COMPANY | 300 | 18.00 | 0.06000 |
| WEDBUSH, NOBLE & COOKE, INC | 900 | 54.00 | 0.06000 |
| WEEDEN & CO | 342,004 | 15,357.13 | 0.04490 |
| WEISS, PECK & GREER LLC | 22,300 | 669.00 | 0.03000 |
| WESTMINSTER RESEARCH | 2,700 | 135.00 | 0.05000 |
| WILLIAMS CAPITAL GRO | 38,151 | 2,249.06 | 0.05895 |
| WITTER (DEAN) REYNOLDS INC | 36,900 | 2,214.00 | 0.06000 |
| **TOTAL** | **28,094,866** | **1,017,759.37** | **0.03623** |

# INVESTMENT SUMMARY
## As of June 30, 2001

| TYPE OF INVESTMENT | | MARKET VALUE | % OF PORTFOLIO |
|---|---|---|---|
| **PREFERRED STOCK (EQUITY)** | | | |
| Domestic | $ | 344,341 | 0.02% |
| Domestic Convertible Preferred | | 110,550 | 0.01% |
| Foreign | | 635,906 | 0.04% |
| ***TOTAL PREFERRED STOCK*** | **$** | **1,090,797** | **0.07%** |
| **COMMON STOCK (EQUITY)** | | | |
| Basic Industry | $ | 25,547,326 | 1.53% |
| Capital Goods | | 148,511,322 | 8.90% |
| Consumer Durable | | 7,760,686 | 0.47% |
| Consumer Non-Durable | | 113,114,719 | 6.78% |
| Energy | | 32,234,673 | 1.93% |
| Finance & Building | | 111,998,184 | 6.71% |
| Health Care | | 89,987,241 | 5.40% |
| Miscellaneous | | 124,825 | 0.01% |
| Transportation | | 10,930,625 | 0.66% |
| Utility | | 53,070,884 | 3.18% |
| International Equities | | 183,078,078 | 10.98% |
| ***TOTAL COMMON STOCK*** | **$** | **776,358,563** | **46.55%** |
| **FIXED INCOME** | | | |
| US Government | $ | 76,163,385 | 4.57% |
| Federal Agency | | 231,174,362 | 13.86% |
| Corporate Obligations | | 282,886,434 | 16.96% |
| Convertible Obligations | | 10,713,367 | 0.64% |
| Foreign Government | | 73,785,009 | 4.42% |
| Foreign Corporate | | 37,648,519 | 2.26% |
| ***TOTAL FIXED INCOME*** | **$** | **712,371,076** | **42.71%** |
| **OTHER INVESTMENTS** | | | |
| Short Term | $ | 47,591,368 | 2.85% |
| Real Estate | | 160,481,073 | 9.62% |
| ***TOTAL OTHER INVESTMENTS*** | **$** | **208,072,441** | **12.47%** |
| **PENDINGS** | **$** | **-29,943,442** | **-1.80%** |
| **TOTAL** | **$** | **1,667,949,435** | **100.00%** |

# INVESTMENT PROPERTIES


**Airport Commercenter**
278,470 s.f. industrial complex consisting of four one-story buildings located in Ontario, CA. Acquired jointly with the Federated City Employees' Retirement System in April 1989.


**Copperwood Square Shopping Center**
138,990 s.f. retail shopping center in Citrus Heights, CA. Acquired jointly with the Federated City Employees' Retirement System in June 1987.

**The Deerwood Apartments**
186 unit luxury mid-rise apartment community located in Houston, TX. Acquired as sole owners in January 1996.

**Milpitas Warehouse**
145,152 s.f. warehouse/distribution building, equally divided into four bays. Acquired jointly with the Federated City Employees' Retirement System in February 1986.

# INVESTMENT PROPERTIES (Continued)

**Pine Grove Office Complex**
85,956 s.f. five-building office complex located in Orinda, CA. Acquired jointly with the Federated City Employees' Retirement System in September 1990.

**Plaza Paseo Real**
147,213 s.f. retail shopping center located in Carlsbad, CA. Acquired jointly with the Federated City Employees' Retirement System in May 1993.

**Saddleback Financial Center**
72,711 s.f. mid-rise office building located in Laguna Hills, CA. Acquired jointly with the Federated City Employees' Retirement System in January 1988.

**Camelback Pointe Apartments**
258-unit luxury apartment community in Colorado Springs, CO. Acquired as sole owners in December 1997.

# INVESTMENT PROPERTIES (Continued)

**Crescent VII**
135,044 s.f. six-story office building located in the Denver Tech Center in Greenwood Village, CO. Acquired as sole owners in June 1998.

**Citibank Office Plaza**
100,303 s.f. five-story office building located in Oak Brook, IL. Acquired as sole owners in December 1998


**Mid South Logistec II Center**
450,000 s.f. one-story industrial warehouse located in Nashvelle, TN. Invested as sole shareholder in November 1999.

**First American Office Plaza**
82,596 s.f. six-story office building located in San Jose,CA. Invested as sole shareholder in December 1999.

# IV.
# ACTUARIAL SECTION

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# ACTUARY CERTIFICATION LETTER

WILLIAM M.
MERCER

August 1, 2000

Board of Retirement
City of San Jose
Police and Fire Department Retirement Plan
777 North First Street, Suite 750
San Jose, CA 95112-6311

Dear Members of the Board:

We are pleased to present the actuarial valuation for the City of San Jose Police and Fire Department Retirement Plan prepared as of June 30, 1999 by William M. Mercer, Incorporated. The report includes:

(1) a determination of the city contribution rates under the current and recommended actuarial methods and assumptions;

(2) a determination of the employee contribution rates under the current and recommended actuarial methods and assumptions.

This report conforms with the requirements of the governing state and local statutes, accounting rules, and generally accepted actuarial principles and practices.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained therein.

We look forward to presenting this report to the Board at your earliest convenience.

Sincerely,

Drew James, FSA, EA, MAAA

Andy Yeung, ASA, EA, MAAA

William M. Mercer, Incorporated
3 Embarcadero Center, Suite 1600
Box 7440 / 94120
San Francisco, CA 94111-4015

Phone 415 743 8700
Fax 415 743 8950

California Insurance License 0510400

An MMC Company

# ACTUARY CERTIFICATION LETTER (Continued)

**Actuarial Certification**

The biennial actuarial valuation required for the City of San Jose Police and Fire Department Retirement Plan has been prepared as of June 30, 1999 by William M. Mercer, Incorporated. In preparing this valuation, we have employed generally accepted actuarial methods and assumptions to evaluate the System's assets, liabilities and future contribution requirements. Our calculations are based upon member data and audited financial information provided to us by the System's staff. This information has not been audited by us, but it has been reviewed and found to be consistent, both internally and with prior years' information.

The contribution requirements are determined as a percentage of payroll. The funding objective of the plan is to determine employer rates that provide for both normal cost and a contribution to amortize any unfunded or overfunded actuarial accrued liabilities. The Board elected to amortize the System's unfunded actuarial accrued liability over a 40-year period, beginning in 1977, with 18 years remaining as of the June 30, 1999 valuation date. The unfunded or overfunded actuarial accrued liability contribution rate is calculated to remain level as a percentage of future payroll (including projected payroll for future members). Payment will increase at the assumed rate of inflation, which is 4.5% per year.

The ratio of actuarial value of assets to actuarial accrued liabilities increased from 112.8% to 115.3% as a result of this valuation. Please note that the funding ratio calculated as of June 30, 1999 reflecting the recent benefit improvements effective February 4, 2000 is 112.8%. The primary cause of the increase was the greater than expected investment return on the System's assets.

The Board has adopted new non-economic assumptions and decreased the inflation assumption from 4.75% to 4.50%.

In our opinion, the recommended assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System and meet the parameters required by GASB Statement 25.

A list of the supporting schedules we prepared for inclusion in the actuarial, statistical and financial sections of the Association's CAFR report is provided below.

1. Schedule of Active Member Valuation Data
2. Retirees and Beneficiaries Added to and Removed From Retiree Payroll
3. Solvency Test
4. Actuarial Analysis of Financial Experience
5. Schedule of Average Benefit Payments for Retirees and Beneficiaries
6. Schedule of Funding Progress
7. Schedule of Retiree Members by Type of Benefit

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# ACTUARY CERTIFICATION LETTER (Continued)

Future contribution requirements may differ from those determined in the valuation because of:

(1) differences between actual experience and anticipated experience;
(2) changes in actuarial assumptions or methods;
(3) changes in statutory provisions; and
(4) differences between the contribution rates determined by the valuation and those adopted by the Board.

This report conforms with the requirements of the governing state and local statutes, accounting rules, and generally accepted actuarial principles and practices. The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

William M. Mercer, Incorporated

| | |
|---|---|
| Drew James, FSA, EA, MAAA | Andy Yeung, ASA, EA, MAAA |
| 8/1/2000 | 8/1/2000 |
| Date | Date |

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# SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

*The following assumptions have been adopted by the Retirement Board as of June 30, 1999*

| | |
|---|---|
| Valuation Interest Rate | 8% |
| Inflation Rate | 4.50% |
| Cost-of-Living Adjustments | 3.00% |
| Post-Retirement Mortality | |
| (a) Service | |
| Males | 1994 Male Group Annuity Mortality Table (set back 3 years) |
| Females | 1994 Female Group Annuity Mortality Table set forward 1 year |
| (b) Disability | PERS Industrial Disability Table 88-92 (set back 2 years) |
| Pre-Retirement Mortality | Based upon the 6/30/99 Experience Analysis |
| Withdrawal Rates | Based upon the 6/30/99 Experience Analysis |
| Disability Rates | Based upon the 6/30/99 Experience Analysis |
| Service Retirement Rates | Based upon the 6/30/99 Experience Analysis |
| Salary Scales | 10.50% for the first five years of service. Graded increases thereafter ranging from 9.90% at age 25 to 4.60% at ages 60 and over. Of the total salary increases, 4.50% is for inflation. |
| Percentage of Members Married | 85% |
| Reciprocity | 75% of all terminated vested members are assumed to be employed by a reciprocal entity. |
| Assets | Five-year smoothed recognition of total market return that differs from the 8% return target. |

*Funding Method*

The System's liability is being funded on the Entry Age Normal Cost method with the Unfunded Actuarial Accrued Liability being amortized over a period of 40 years beginning in 1977, with 18 years remaining on the June 30, 1999 valuation date. Actuarial gains and losses are reflected in the Unfunded Actuarial Accrued Liability.

# PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

| Age | withdrawal 0-1 | withdrawal 1-2 | withdrawal 2-3 | withdrawal 3-4 | withdrawal 4-5 | withdrawal 5-10 | withdrawal 10+ | deferred | ordinary disab. | duty disability | ordinary death | duty death | Ret.AgeSv |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| <= 20 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0000 | 0.0000 | 0.0001 | 0.0000 | 0.0000 |
| 21 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0000 | 0.0001 | 0.0001 | 0.0000 | 0.0000 |
| 22 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0000 | 0.0001 | 0.0001 | 0.0000 | 0.0000 |
| 23 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0000 | 0.0001 | 0.0001 | 0.0000 | 0.0000 |
| 24 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0000 | 0.0001 | 0.0001 | 0.0000 | 0.0000 |
| 25 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0000 | 0.0002 | 0.0001 | 0.0000 | 0.0000 |
| 26 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0001 | 0.0002 | 0.0001 | 0.0001 | 0.0000 |
| 27 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0001 | 0.0003 | 0.0001 | 0.0001 | 0.0000 |
| 28 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0001 | 0.0002 | 0.0001 | 0.0001 | 0.0000 |
| 29 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0001 | 0.0002 | 0.0001 | 0.0001 | 0.0000 |
| 30 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0001 | 0.0007 | 0.0001 | 0.0001 | 0.0000 |
| 31 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0001 | 0.0006 | 0.0001 | 0.0001 | 0.0000 |
| 32 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0001 | 0.0003 | 0.0001 | 0.0001 | 0.0000 |
| 33 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0001 | 0.0008 | 0.0002 | 0.0002 | 0.0000 |
| 34 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0002 | 0.0015 | 0.0002 | 0.0002 | 0.0000 |
| 35 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0004 | 0.0015 | 0.0002 | 0.0002 | 0.0000 |
| 36 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0006 | 0.0015 | 0.0002 | 0.0002 | 0.0000 |
| 37 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0008 | 0.0018 | 0.0002 | 0.0002 | 0.0000 |
| 38 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0010 | 0.0019 | 0.0002 | 0.0002 | 0.0000 |
| 39 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0012 | 0.0020 | 0.0002 | 0.0002 | 0.0000 |
| 40 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0014 | 0.0020 | 0.0002 | 0.0003 | 0.0000 |
| 41 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0016 | 0.0020 | 0.0002 | 0.0003 | 0.0000 |
| 42 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0016 | 0.0021 | 0.0002 | 0.0003 | 0.0000 |
| 43 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0016 | 0.0029 | 0.0002 | 0.0003 | 0.0000 |
| 44 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0070 | 0.0016 | 0.0041 | 0.0003 | 0.0003 | 0.0000 |
| 45 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0038 | 0.0014 | 0.0078 | 0.0003 | 0.0003 | 0.0000 |
| 46 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0038 | 0.0012 | 0.0100 | 0.0003 | 0.0004 | 0.0000 |
| 47 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0038 | 0.0010 | 0.0128 | 0.0003 | 0.0004 | 0.0000 |
| 48 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0038 | 0.0010 | 0.0161 | 0.0003 | 0.0004 | 0.0000 |
| 49 | 0.0900 | 0.0130 | 0.0130 | 0.0130 | 0.0130 | 0.0085 | 0.0020 | 0.0038 | 0.0010 | 0.0204 | 0.0003 | 0.0004 | 0.0000 |
| 50 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0010 | 0.0449 | 0.0004 | 0.0004 | 0.1300 |
| 51 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0010 | 0.0526 | 0.0004 | 0.0004 | 0.1250 |
| 52 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0010 | 0.0603 | 0.0004 | 0.0005 | 0.1000 |
| 53 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0010 | 0.0677 | 0.0005 | 0.0005 | 0.0900 |
| 54 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0010 | 0.0750 | 0.0005 | 0.0006 | 0.0800 |
| 55 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1193 | 0.0005 | 0.0006 | 0.1500 |
| 56 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1469 | 0.0006 | 0.0007 | 0.1400 |
| 57 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1745 | 0.0006 | 0.0008 | 0.1284 |
| 58 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1899 | 0.0007 | 0.0008 | 0.1276 |
| 59 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1959 | 0.0008 | 0.0009 | 0.1691 |
| 60 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1959 | 0.0009 | 0.0010 | 0.2101 |
| 61 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1959 | 0.0010 | 0.0010 | 0.2506 |
| 62 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1959 | 0.0011 | 0.0011 | 0.2490 |
| 63 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1959 | 0.0012 | 0.0012 | 0.3456 |
| 64 | 0.0900 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1959 | 0.0014 | 0.0012 | 0.4490 |
| 65 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 1.0000 |

# YEARS OF LIFE EXPECTANCY AFTER SERVICE RETIREMENT

| Age | Member | Beneficiary | Age | Member | Beneficiary |
|---|---|---|---|---|---|
| 50 | 32.80 | 33.29 | 80 | 9.52 | 9.30 |
| 51 | 31.87 | 32.34 | 81 | 8.98 | 8.74 |
| 52 | 30.94 | 31.40 | 82 | 8.46 | 8.20 |
| 53 | 30.01 | 30.47 | 83 | 7.97 | 7.68 |
| 54 | 29.09 | 29.53 | 84 | 7.51 | 7.18 |
| 55 | 28.18 | 28.61 | 85 | 7.07 | 6.71 |
| 56 | 27.28 | 27.68 | 86 | 6.65 | 6.25 |
| 57 | 26.38 | 26.77 | 87 | 6.24 | 5.83 |
| 58 | 25.49 | 25.86 | 88 | 5.86 | 5.42 |
| 59 | 24.61 | 24.97 | 89 | 5.48 | 5.05 |
| 60 | 23.74 | 24.09 | 90 | 5.12 | 4.70 |
| 61 | 22.88 | 23.22 | 91 | 4.78 | 4.37 |
| 62 | 22.04 | 22.36 | 92 | 4.45 | 4.07 |
| 63 | 21.20 | 21.52 | 93 | 4.15 | 3.79 |
| 64 | 20.38 | 20.69 | 94 | 3.87 | 3.53 |
| 65 | 19.57 | 19.88 | 95 | 3.61 | 3.28 |
| 66 | 18.78 | 19.09 | 96 | 3.37 | 3.06 |
| 67 | 18.01 | 18.30 | 97 | 3.15 | 2.85 |
| 68 | 17.26 | 17.53 | 98 | 2.95 | 2.65 |
| 69 | 16.53 | 16.77 | 99 | 2.77 | 2.48 |
| 70 | 15.81 | 16.01 | 100 | 2.60 | 2.31 |
| 71 | 15.11 | 15.26 | 101 | 2.46 | 2.16 |
| 72 | 14.43 | 14.53 | 102 | 2.33 | 2.02 |
| 73 | 13.77 | 13.81 | 103 | 2.20 | 1.89 |
| 74 | 13.11 | 13.11 | 104 | 2.09 | 1.78 |
| 75 | 12.48 | 12.43 | 105 | 1.97 | 1.70 |
| 76 | 11.85 | 11.76 | 106 | 1.87 | 1.63 |
| 77 | 11.25 | 11.11 | 107 | 1.76 | 1.57 |
| 78 | 10.66 | 10.49 | 108 | 1.67 | 1.53 |
| 79 | 10.08 | 9.88 | 109 | 1.60 | 1.50 |
| | | | 110 | 1.53 | 1.47 |

Member
94 GAM Male -3

Beneficiary
94 GAM Female +1

# YEARS OF LIFE EXPECTANCY AFTER DISABILITY RETIREMENT

| Age | Member | Age | Member | Age | Member |
|---|---|---|---|---|---|
| 20 | 56.78 | 50 | 28.66 | 80 | 8.42 |
| 21 | 55.81 | 51 | 27.79 | 81 | 8.00 |
| 22 | 54.84 | 52 | 26.93 | 82 | 7.61 |
| 23 | 53.86 | 53 | 26.07 | 83 | 7.23 |
| 24 | 52.89 | 54 | 25.22 | 84 | 6.87 |
| 25 | 51.92 | 55 | 24.39 | 85 | 6.51 |
| 26 | 50.95 | 56 | 23.56 | 86 | 6.16 |
| 27 | 49.98 | 57 | 22.75 | 87 | 5.82 |
| 28 | 49.02 | 58 | 21.94 | 88 | 5.48 |
| 29 | 48.05 | 59 | 21.16 | 89 | 5.15 |
| 30 | 47.09 | 60 | 20.38 | 90 | 4.81 |
| 31 | 46.13 | 61 | 19.62 | 91 | 4.48 |
| 32 | 45.18 | 62 | 18.88 | 92 | 4.16 |
| 33 | 44.22 | 63 | 18.15 | 93 | 3.86 |
| 34 | 43.27 | 64 | 17.44 | 94 | 3.57 |
| 35 | 42.32 | 65 | 16.75 | 95 | 3.30 |
| 36 | 41.38 | 66 | 16.08 | 96 | 3.04 |
| 37 | 40.43 | 67 | 15.43 | 97 | 2.79 |
| 38 | 39.49 | 68 | 14.80 | 98 | 2.56 |
| 39 | 38.56 | 69 | 14.18 | 99 | 2.35 |
| 40 | 37.63 | 70 | 13.58 | 100 | 2.15 |
| 41 | 36.71 | 71 | 13.00 | 101 | 1.95 |
| 42 | 35.79 | 72 | 12.43 | 102 | 1.77 |
| 43 | 34.88 | 73 | 11.87 | 103 | 1.61 |
| 44 | 33.98 | 74 | 11.33 | 104 | 1.45 |
| 45 | 33.08 | 75 | 10.81 | 105 | 1.30 |
| 46 | 32.18 | 76 | 10.30 | 106 | 1.17 |
| 47 | 31.30 | 77 | 9.80 | 107 | 1.04 |
| 48 | 30.41 | 78 | 9.32 | 108 | 0.92 |
| 49 | 29.53 | 79 | 8.86 | 109 | 0.81 |

88' - 92' PERS Industrial Disability -2

# SCHEDULE OF ACTIVE MEMBER VALUATION DATA (Contributing Members Only)

| Valuation Date | Number | Projected Annual Payroll | Monthly Average Pay | % Increase in Average Pay * |
|---|---|---|---|---|
| 06/30/1993 | 1,785 | $ 98,831,000 | $ 4,614 | Not Calculated |
| 06/30/1995 | 1,812 | $ 109,196,000 | $ 5,022 | 8.84% |
| 06/30/1997 | 1,954 | $ 129,850,000 | $ 5,538 | 10.27% |
| 06/30/1999 | 1,953 | $ 144,125,000 | $ 6,150 | 11.05% |

* Reflects the increase in average salary for members at the beginning of the period versus those at the end of the period, it does not reflect the average salary increases received by members who worked the full period.

# RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

| | At Beginning of Period | | Added During Period* | | Removed During Period | | End of Period | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Time Period | Count | Annual Retiree Payroll | Count | Annual Retiree Payroll | Count | Annual Retiree Payroll | Count | Annual Retiree Payroll | % Increase in Annual Retiree Payroll | Average Annual Allowance |
| 6/30/93-6/30/95 | 700 | $18,958,000 | 157 | $7,264,000 | 33 | $639,000 | 824 | $ 25,583,000 | 31.94% | $31,047 |
| 6/30/95-6/30/97 | 824 | $25,583,000 | 145 | $7,059,000 | 29 | $652,000 | 940 | $ 31,990,000 | 25.04% | $34,032 |
| 6/30/97-6/30/99 | 940 | $31,990,000 | 156 | $9,962,000 | 36 | $880,000 | 1,060 | $ 41,072,000 | 28.39% | $38,747 |

* Includes the Plan's annual cost-of-living adjustment as well as payroll for new retirees.

# ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE
# (Amounts in Thousands)

| | | |
|---|---|---|
| June 30, 1997 Unfunded (Over Funded) Actuarial Accrued Liability | $ | (94,126) |
| Expected Increase from Prior Valuation | $ | 1,001 |
| Salary Increase Greater (Less) than Expected | $ | 6,767 |
| Asset Return Less (Greater) than Expected | $ | (132,135) |
| COLA increases Greater (Less) than Expected | $ | (2,487) |
| (Gain)/Loss from Withdrawal | $ | (56) |
| Other Experience | $ | 15,063 |
| Change in Economic & Non-economic Assumptions | $ | 14,870 |
| June 30, 1999 Unfunded (Over Funded) Actuarial Accrued Liability (Before Benefit Improvement Effective February 4, 2000) | $ | (191,103) |
| Increase due to Benefit Improvement | $ | 27,350 |
| June 30, 1999 Unfunded (Over Funded) Actuarial Accrued Liability (After Benefit Improvement Effective February 4, 2000) | $ | (163,753) |

# SOLVENCY TEST
## (Amounts in Thousands)

| | Aggregate Accrued Liabilities for | | | | | Portion of Accrued Liabilities Covered by Reported Assets | | |
|---|---|---|---|---|---|---|---|---|
| Valuation Date | Active Member Contributions | Retired/Vested Members | Active Members (Employer Financed Portion) | Total | Actuarial Value of Assets | Active Member Contributions (1) | Retired/Vested Members (2) | Active Members (Employer Financed Portion) (3) |
| 06/30/1993 | $ 85,915 | $ 260,326 | $ 369,882 | $ 716,123 | $ 714,592 | 100% | 100% | 100% |
| 06/30/1995 | $ 100,010 | $ 351,327 | $ 377,402 | $ 828,739 | $ 854,414 | 100% | 100% | 107% |
| 06/30/1997 | $ 115,995 | $ 434,292 | $ 479,881 | $ 1,030,168 | $ 1,124,294 | 100% | 100% | 120% |
| 06/30/1999 (4) | $ 121,282 | $ 595,196 | $ 532,536 | $ 1,249,014 | $ 1,440,117 | 100% | 100% | 136% |
| 06/30/1999 (5) | $ 121,282 | $ 595,196 | $ 559,886 | $ 1,276,364 | $ 1,440,117 | 100% | 100% | 129% |

(1) Accumulated from member contribution account balances provided by the Retirement System
(2) Calculated based on assuptions adopted by the Board
(3) Calculated based on assuptions adopted by the Board and offset with Active member contribution account balances
Derived: (Actuarial Value of Assets - Active Member Contributions Liabilities - Retired and Vested Members Liabilities) / (Employer Financed Portion of Liabilities)
(4) Before reflection of benefit improvements effective February 4, 2000.
(5) After reflection of benefit improvements effective February 4, 2000.

# ASSUMPTION CHANGES

Changes were made to most of the assumptions since the prior valuation. Following were the most significant:

- Inflation — A reduction in the annual inflation assumption from 4.75% to 4.50%. This reduces costs, provided the investment return assumption is unchanged.

- Real Rate of Investment Return — An increase in the annual real rate of investment return from 3.25% to 3.50%. This reduces costs.

- Disability — Duty disability rates were decreased somewhat. This reduces costs.

- Service Retirement — Retirement rates were increased to reflect recent experience. This increases costs.

- Salary Increase — Changes were made to the merit and longevity salary increase assumptions to reflect salary increases over the last two years. This reduces costs.

- Post-Retirement Mortality — A set-back (i.e., a mortality improvement) to the current mortality table (1994 Group Annuity Mortality Table for Males) used for service retirees, and a set-forward (i.e., higher mortality) to the current table (1994 Group Annuity Mortality Table for Females) used for beneficiaries was adopted by the Board to reflect mortality changes since the current table (1994 Group Annuity Mortality Table) was developed. The combined change increases costs.

- Medical and Dental Premium Increases — Short-term premium increases were raised to reflect anticipated experience. This increases costs.

# MAJOR PROVISIONS OF THE RETIREMENT PLAN

Briefly summarized below are the major provisions of the 1961 San Jose Police and Fire Department Retirement Plan, as amended through June 30, 1999.

### *Final Average Salary (FAS)*

Final average salary is defined as the highest 12 consecutive months of compensation earnable, not to exceed 108% of compensation paid to the member during the 12 months immediately preceding the last 12 months of service. FAS excludes overtime pay and expense allowances.

### *Return of Contributions*

If a member should resign or die before becoming eligible for retirement, his or her contributions plus 2% interest per annum will be refunded.

### *Service Retirement Benefit*

Members with 20 years of service who have attained age 55 are eligible to retire. Members age 70 (no service requirement) and members with 30 years of service, regardless of age, are also eligible to retire.

### *Retirement Before February 4, 2000*

The normal service retirement benefit is 2.5% of FAS per year of service up to 20 years of service, plus 3.0% of FAS per year of service over 20, not to exceed 80% of FAS.

A special study was performed by the plan's prior actuary in 1992 (and subsequently adopted by the Board) which allows members with 25 years of service to retire at age 50 with unreduced benefits. Otherwise, members age 50 with 20 years of service receive their accrued service retirement benefit, reduced for interest below age 55.

Ten years of service are required for vesting purposes.

### *Retirement On and After February 4, 2000*

The normal service retirement benefit is 2.5% of FAS per year of service up to 20 years of service, plus 3.0% of FAS per year of service for each of the next five years and 4% of FAS per year of service thereafter. The maximum benefit is 85% FAS.

# MAJOR PROVISIONS OF THE RETIREMENT PLAN (Continued)

***Disability Benefit***

*Nonservice-connected*

Members with 2 years of service, regardless of age, are eligible for nonservice-connected disability. The benefit is 32% of FAS for the first 2 years of service plus 1% of FAS for each successive year. For members with 20 or more years of service, the monthly retirement allowance is FAS multiplied by 2 ½% multiplied by years of service up to 20 years and by 3% for the next five years. For those that retired on or after February 4, 2000, FAS is multiplied by 4% after 25 years. There is a maximum of 85% (30 years of service equals 85%).

*Service-connected*

Members may retire regardless of length of service, and the benefit is the greater of 50% of FAS or 2.5% of FAS per year of service up to 20 years of service, plus 3.0% per year of service for the next five years. For those that retired on or after February 4, 2000, FAS is multiplied by 4% after 25 years. There is a maximum of 85% (30 years of service equals 85%).

**Death Benefit (before and after retirement)**

*Nonservice-connected*

Eligibility is based on 2 years of service, regardless of age. The spouse receives 24% of FAS for the first 2 years of service plus 0.75% of FAS for each successive year. The maximum benefit is 37.5% of FAS.

If a member has eligible dependent children (under age 18, or age 22 if a full time student), the benefits are as follows:

| | |
|---|---|
| 1 child | 25% of FAS |
| 2 children | 37.5% of FAS |
| 3 or more children | 50% of FAS |

The total benefits payable to a family shall not exceed 75% of FAS.

If a member does not have a spouse nor dependent children at death, a lump sum equal to the greater of the member's contributions or $1,000 is paid to the estate.

These benefits are payable for active member deaths and deaths after nonservice-connected disability retirement.

*Service-connected*

The spouse receives 37.5% of FAS. Eligible dependent children receive 25% of FAS per child. The total benefits payable to a family shall not exceed 75% of FAS.

# MAJOR PROVISIONS OF THE RETIREMENT PLAN (Continued)

These benefits are payable for active member deaths and deaths after service-connected disability retirement and service retirement.

**Death Benefit - Inactive Members (after retirement)**

*Retirement Before February 4, 2000*

The spouse receives 1.875% of FAS per year of service, not to exceed 37.5% of FAS. Eligible dependent children receive the following:

| | |
|---|---|
| 1 child | 1.25% of FAS per year of service |
| 2 children | 1.875% of FAS per year of service |
| 3 or more children | 2.5% of FAS per year of service |

The total benefits payable to a family shall not exceed 75% of FAS.

*Retirement On and After February 4, 2000*

The surviving spouse of a member who is entitled to a retirement benefit greater than 75% FAS gets a spousal benefit equal to 50% of the member benefit up to a maximum of 42.5% of FAS.

*Cost of Living*

The maximum increase in retirement allowance is 3% a year. The increases are based on the annual change in the Consumer Price Index. Effective February 1, 2002, COLA will be a flat 3%

*Post-Retirement Health and Dental*

Retirees and survivors with 15 years of service, or receiving a benefit of at least 37.5% of FAS, receive the same medical coverage that the City pays for an active member. Deferred vested members who terminated after July 5, 1992 with 20 years of service are also entitled to health and dental coverage.

*Members' Retirement Contributions*

The members' contribution rates are recalculated on an actuarial basis at each actuarial study. The members presently contribute at the rate of 9.79% of pay.

*City's Retirement Contributions*

The City presently contributes at a rate of 15.60% of pay for all members. The City rate is the percentage of salary necessary, on an actuarial basis, to provide for the payment of the benefits promised, also taking into account the contributions being made by the members and the assets on hand. These rates are changed in accordance with the results of each actuarial study.

# V.
# STATISTICAL SECTION

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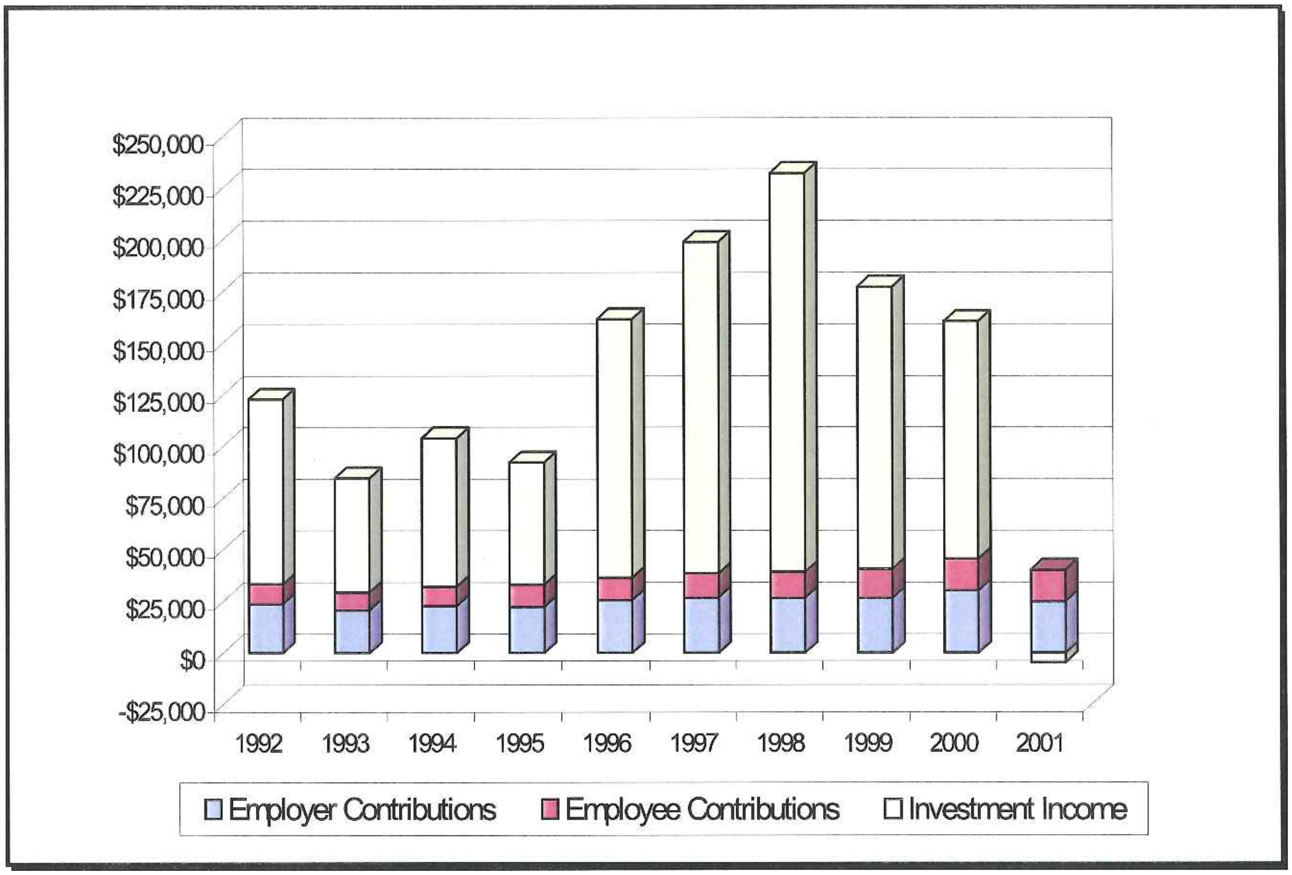
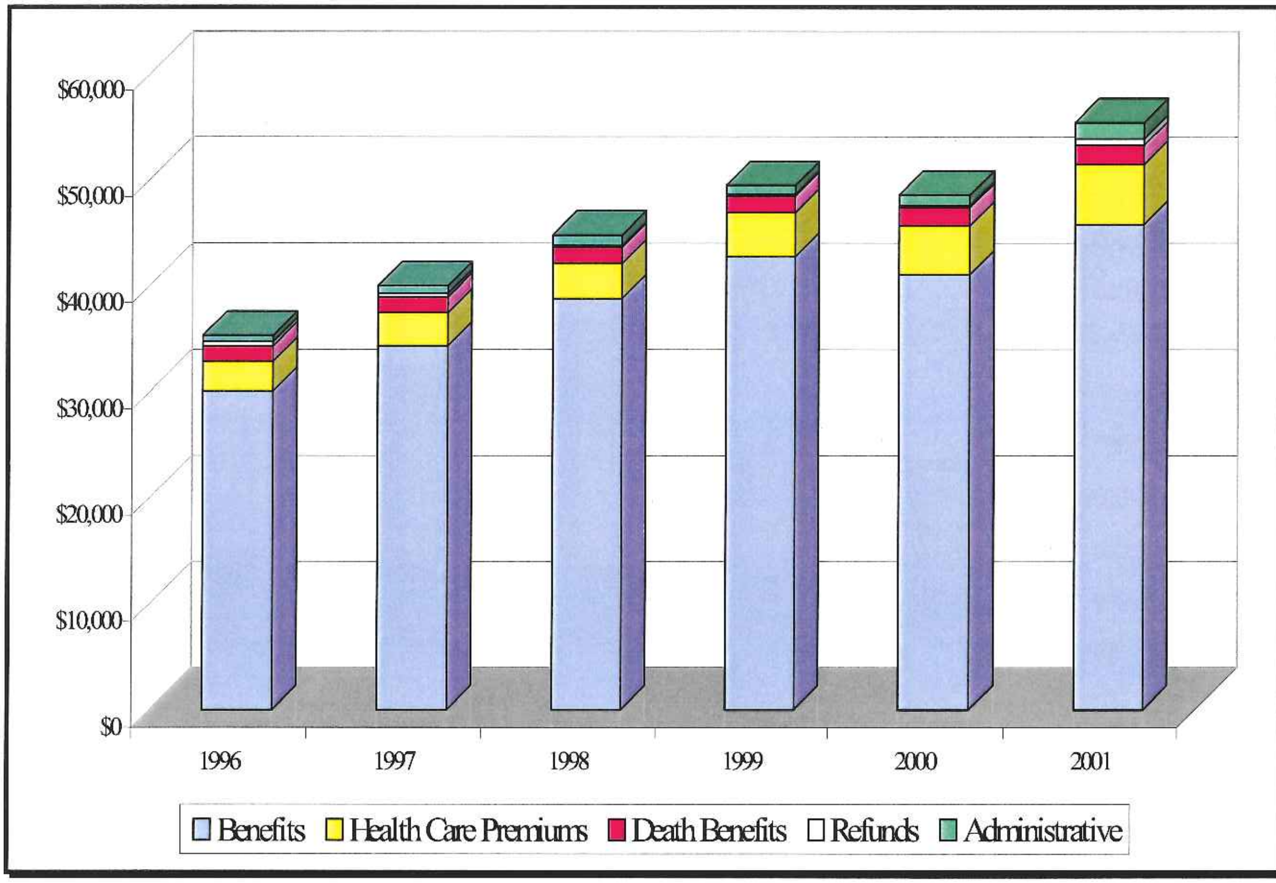
# ADDITIONS BY SOURCE
## For Fiscal Years 1992 - 2001
(In Thousands)




| Year Ending | Employer Contributions | % of Annual Payroll | Employee Contributions | % of Annual Payroll | Investment Income * | Total |
|---|---|---|---|---|---|---|
| 1992 | $ 23,626 | 21.99% | $ 9,617 | 9.41% | $ 89,663 | $ 122,906 |
| 1993 | $ 20,626 | 22.99% | $ 8,820 | 9.42% | $ 55,284 | $ 84,730 |
| 1994 | $ 22,827 | 22.24% | $ 9,355 | 9.36% | $ 71,826 | $ 104,008 |
| 1995 | $ 22,298 | 22.24% | $ 10,689 | 9.36% | $ 59,354 | $ 92,341 |
| 1996 | $ 25,604 | 22.24% | $ 10,789 | 9.36% | $ 125,170 | $ 161,563 |
| 1997 | $ 26,779 | 21.61% | $ 11,711 | 9.40% | $ 160,534 | $ 199,024 |
| 1998 | $ 26,547 | 17.28% | $ 12,570 | 9.70% | $ 193,114 | $ 232,231 |
| 1999 | $ 26,563 | 19.82% | $ 14,148 | 10.22% | $ 136,644 | $ 177,355 |
| 2000 | $ 30,187 | 15.60% | $ 15,374 | 9.79% | $ 114,911 | $ 160,472 |
| 2001 | $ 24,672 | 15.60% | $ 15,542 | 9.79% | $ (4,795) | $ 35,419 |

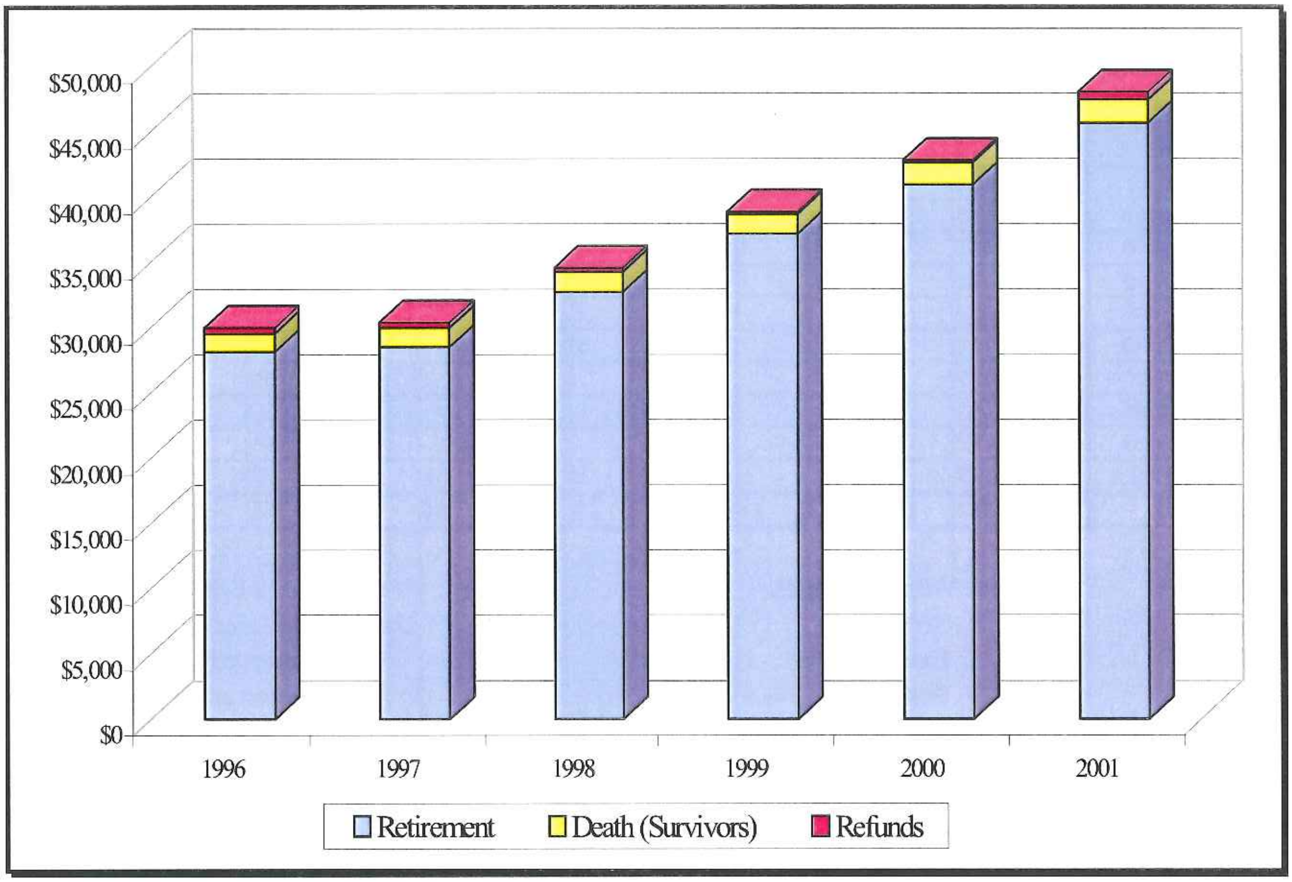
* Net of Investment Expenses and beginning 1997, audit report includes unrealized gains in investment income

# DEDUCTIONS BY TYPE
## For Fiscal Years 1996 - 2001
(In Thousands)




| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| Benefits | $30,015 | $34,274 | $38,738 | $42,663 | $40,974 | $45,699 |
| Health Care Premiums | $2,808 | $3,115 | $3,306 | $4,156 | $4,649 | $5,685 |
| Death Benefits | $1,437 | $1,484 | $1,525 | $1,531 | $1,689 | $1,772 |
| Refunds | $402 | $343 | $167 | $194 | $194 | $615 |
| Administrative | $601 | $732 | $990 | $841 | $1,019 | $1,550 |
| **TOTAL** | **$35,263** | **$39,948** | **$44,726** | **$49,385** | **$48,525** | **$55,321** |

## BENEFIT EXPENSES BY TYPE
## For Fiscal Years 1996 - 2001
## (In Thousands)




| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| Retirement | $28,157 | $28,531 | $32,749 | $37,207 | $40,974 | $45,699 |
| Death (Survivors) | $1,437 | $1,484 | $1,525 | $1,531 | $1,689 | $1,772 |
| Refunds | $436 | $402 | $343 | $167 | $194 | $615 |
| **TOTAL** | **$30,030** | **$30,417** | **$34,617** | **$38,905** | **$42,857** | **$48,086** |

# RETIRED MEMBERS BY TYPE OF BENEFIT
## As of June 30, 2001

| Amount Monthly Benefit | Number of Retirants | Type of Retirement* | | | | | | | Option Selected ** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | Unmod | Opt. 1 | Opt. 2 | Opt. 3 | TTL |
| $1 - 500 | 6 | | | | | | 5 | 1 | 4 | 2 | | | 6 |
| $501 - 1000 | 26 | | | 9 | 1 | | 11 | 5 | 18 | 1 | 7 | | 26 |
| $1001 - 1500 | 85 | 4 | | 45 | 9 | 6 | 15 | 6 | 36 | 2 | 47 | | 85 |
| $1501 - 2000 | 113 | 5 | | 42 | 51 | 1 | 8 | 6 | 69 | 5 | 39 | | 113 |
| $2001 - 2500 | 94 | 3 | | 23 | 61 | 1 | 2 | 4 | 67 | 6 | 20 | 1 | 94 |
| $2501 - 3000 | 133 | 8 | 1 | 9 | 107 | 8 | | | 90 | 31 | 12 | | 133 |
| $3001 - 3500 | 118 | 16 | | 3 | 94 | 3 | 1 | 1 | 70 | 35 | 4 | 9 | 118 |
| $3501 - 4000 | 125 | 42 | | 3 | 80 | | | | 49 | 54 | 8 | 14 | 125 |
| $4001 - 4500 | 133 | 54 | | 5 | 73 | | 1 | | 53 | 60 | 9 | 11 | 133 |
| $4501 - 5000 | 152 | 70 | | 1 | 80 | | 1 | | 41 | 93 | 6 | 12 | 152 |
| Over $5000 | 194 | 90 | | | 102 | 1 | | 1 | 91 | 77 | 11 | 15 | 194 |
| **TOTAL** | **1179** | **292** | **1** | **140** | **658** | **20** | **44** | **24** | **588** | **366** | **163** | **62** | **1179** |

***RETIREMENT CODES**

1 Service
2 Early
3 Survivor
4 Service Connected Disability
5 Non-Service Connected Disability
6 Ex-Spouse
7 Deferred Vested

****OPTION DESCRIPTIONS**

Unmodified Joint & Survivorship
1 Increased % to survivor/ reduce pension to member
2 Unmodified/No Survivor
3 Joint & Survivorship Pop-up (Same as option 1 but if spouse predeceases member, pension goes back to original pension calculation).

# AVERAGE BENEFIT PAYMENT AMOUNTS*

| Retirants and Beneficiaries | | | | |
|---|---|---|---|---|
| | June 30, 1999 | June 30, 1997 | June 30, 1995 | June 30, 1993 |
| Retired Members | | | | |
| A. Service Retirement | | | | |
| i. Number | 273 | 210 | 159 | 115 |
| ii. Annual Allowance | | | | |
| Basic Only | $11,548,137 | $8,119,000 | $5,869,000 | $3,203,000 |
| COLA | $1,491,171 | $937,000 | $615,000 | $481,000 |
| Total | $13,039,308 | $9,056,000 | $6,484,000 | $3,684,000 |
| Average Monthly Amount | $3,980 | $3,594 | $3,398 | $2,670 |
| B. Disability Retirement | | | | |
| i. Number | 630 | 570 | 514 | 468 |
| ii. Annual Allowance | | | | |
| Basic Only | $19,413,166 | $15,585,000 | $12,864,000 | $10,622,000 |
| COLA | $5,549,404 | $4,460,000 | $3,673,000 | $3,127,000 |
| Total | $24,962,570 | $20,045,000 | $16,537,000 | $13,749,000 |
| Average Monthly Amount | $3,302 | $2,931 | $2,681 | $2,448 |
| C. Beneficiaries | | | | |
| i. Number | 157 | 160 | 151 | 117 |
| ii. Annual Allowance | | | | |
| Basic Only | $1,898,951 | $1,846,000 | $1,647,000 | $1,219,000 |
| COLA | $1,171,641 | $1,043,000 | $915,000 | $738,000 |
| Total | $3,070,592 | $2,889,000 | $2,562,000 | $1,957,000 |
| Average Monthly Amount | $1,630 | $1,505 | $1,414 | $1,394 |
| D. Totals | | | | |
| i. Number | 1,060 | 940 | 824 | 700 |
| ii. Annual Allowance | | | | |
| Basic Only | $32,860,254 | $25,550,000 | $20,380,000 | $15,044,000 |
| COLA | $8,212,216 | $6,440,000 | $5,203,000 | $4,346,000 |
| Total | $41,072,470 | $31,990,000 | $25,583,000 | $19,390,000 |
| Average Monthly Amount | $3,229 | $2,836 | $2,587 | $2,308 |

* - As of last actuarial valuation done June 30, 1999

# RETIREMENTS DURING FISCAL YEAR 2000-01

## SERVICE RETIREMENTS

### POLICE DEPARTMENT

ALVAREZ, GIOVANNA R
BECKWITH, ANTHONY E
BELTRAN, PHILIP J
BLACK, DONALD J
BORBONS, CARL T
BOWMAN, MICHAEL H
BREWER, THOMAS E
CARO, HUMBERTO E
HERNANDEZ, RUDY R
IRELAND, LAWRENCE J
KIMBALL, GARY B
LE GAULT, RUSSELL J
LUCAROTTI, JAMES A
MC LEAN III, WILLIAM C
METCALFE, M M
MICELI, MIKE F
PEDREGON, ALEXANDER E
RAYE, BRUCE D
RIMER, DAVID R
RODGERS, PHILLIP
STENGEL, DAVID J
THOMAS, ARTHUR W
VIDMAR, WILLIAM M

### FIRE DEPARTMENT

BRITTELL, WILLIAM A
CHRISTENSEN, JAMES K
GARRINGER, WILLIAM
GLUCK, CHARLES J

## DEFERRED VESTED RETIREMENTS

### POLICE DEPARTMENT

HOLMES, DARREL W

### FIRE DEPARTMENT

NONE

## NON-SERVICE CONNECTED DISABILITY RETIREMENTS

### POLICE DEPARTMENT

ABATE, JOHN
NAVIN, ANN MARIE

### FIRE DEPARTMENT

NONE

# RETIREMENTS DURING FISCAL YEAR 2000-01 (Continued)

## SERVICE-CONNECTED DISABILITY RETIREMENTS

### POLICE DEPARTMENT

ANDERS, ARTHUR D
ANDREWS, RANDY D
CONSTANT, PETER M
GONZALES, GILBERT S
HUGHES, GARY L
MARTIN, LOUIS B
MATTOS, WILLIAM E
METCALFE, DAVID P
REEK, ROBERT E
ROSARIO, DENNIS
ROYAL, RUSSELL K
SHUEY, CRAIG V

**15.6% of the service-connected disability retirements did not meet requirements for a service retirement.**

### FIRE DEPARTMENT

BARDWELL, MILO K
BUGNA, WALTER J
CIRAULO, JAMES P
DELLA MAGGIORE, EUGENE D
GIBBS, FREDERICK O
GILES, THOMAS W
GRADIA, GERALD
GREWOHL, BILL
LIMA, STEPHEN R
MC QUAIDE, WILLIAM J
OWENS, BLAINE
RAUEN, DAVID P
RIZZO, GEORGE E
ROGERS, ALLAN B
SANTOS, RICHARD P
STAPLES, WILLIAM B
SUMMERS, LAWRENCE J
TOMASELLO, RONALD J
VAN HORN, GERALD R
WINTERS, THOMAS T

# DEATHS DURING FISCAL YEAR 2000-01

## DEATHS AFTER RETIREMENT

### POLICE DEPARTMENT

MC CAY, E. DALE
MOORE, DONALD E
SARGENT, GREGORY S

### FIRE DEPARTMENT

TUMA, FRANK J
LAMB, WILLIAM J
BORCH, HENRY H
MC VEA, IRVIN G
MEAGHER, ROBERT W
PETERSEN, GUNNER
NELSON, MURRAY E
MARSH, LEONARD H
LLORCA, JOHN E

## DEATHS BEFORE RETIREMENT

### POLICE DEPARTMENT

NONE

### FIRE DEPARTMENT

NONE

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