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, 2000

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

September 22, 2000

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, 2000. Some significant events worthy of note during this fiscal year were as follows:

- Investments earned 8 percent, increasing the market value of the portfolio (net of pending purchases and sales) by $116.6 million. Investments contributed 71.6 percent of the Fund's income.
- Two new positions were added to the Board of Administration, one representing retired members and one representing the City Administration.
- The Board and City Council approved a new Department of Retirement Services structure and staffing plan.
- The Plan invested in two new real properties: an industrial warehouse in Nashville, TN and an office building in San Jose (in which the Department of Retirement Services moved in September 2000).
- Two new domestic fixed income managers were hired in September 1999, Chicago Capital Management and Seix Investment Advisors.

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 BACIGALUPI, Chair
Board of Administration

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I.
INTRODUCTORY SECTION

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LETTER OF TRANSMITTAL

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

October 27, 2000

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 year ending June 30, 2000. The Plan was established in 1946 and this is the first year the Plan is using a CAFR format. The change in format provides a more complete and accurate financial review of the year's operations and is the responsibility of the Plan's management.

Structure of the Report

This report is presented in five sections:

- The Introductory Section describes the Plan's management and organizational structure, a summary of the plan provisions and a listing of the professional services used.
- The Financial Section contains the opinion of the independent auditors, Macias, Gini and Company LLP, and the financial statements of the Plan .
- The Investment Section contains the Investment Consultant's statement produced by William M. Mercer, Inc., the Plan's investment consulting firm, along with graphs and schedules regarding asset allocation, asset diversification and history of performance.
- The Actuarial Section includes the certification letter produced by the independent actuary, William M. Mercer, along with supporting schedules and information.
- The Statistical Section contains graphs and schedules with comparative data related to revenue, expenses, benefits, and membership.

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) awards a Certificate of Achievement for Excellence in Financial Reporting. The Certificate of

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LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal
10/27/00 Page 2 of 4

Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to GFOA for evaluation.

Major Initiatives

The Board of Administration and City Council approved the new organizational structure and staffing plan for the Department of Retirement Services. The new structure adds a Deputy Director dedicated to the Police and Fire Department Retirement Plan as well as additional staffing in the investment and banking, benefits and accounting groups shared with the Federated City Employees' Retirement System. Implementation of the new structure and staffing plan began in the last quarter of FY2000.

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 FY2000 totaled $160,472,000.

ADDITIONS	2000	1999	Increase (Decrease)	Change
Employer Contributions	30,187,000	26,563,000	3,624,000	14%
Employee Contributions	$ 15,374,000	$ 14,148,000	$ 1,226,000	9%
Investment Income	114,911,000	136,644,000	(21,733,000)	(16%)
TOTAL	**$160,472,000**	**$177,355,000**	**$(16,883,000)**	**(10%)**

The decrease in investment income was attributable mainly to lower net appreciation in fair value of investments. The increase in employer and employee contributions was attributed to higher contribution rates.

Deductions from Plan Net Assets

The principle 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.

LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal
10/27/00 Page 3 of 4

DEDUCTIONS	2000	1999	Increase (Decrease)	Change
Retirement Benefits	$40,974,000	$37,207,000	$3,767,000	10%
Death Benefits (Survivorship)	1,689,000	1,531,000	158,000	10%
Return of Contributions	194,000	167,000	27,000	16%
Healthcare Insurance Premiums	4,649,000	4,156,000	493,000	12%
Administrative Expenses	1,019,000	841,000	178,000	21%
TOTAL	**$48,525,000**	**$43,902,000**	**$4,623,000**	**11%**

The increase in administrative expenses was mainly due to increase staff cost, the 1999 Plan actuarial valuation cost and the cost for software development for the pension administrative system.

Changes in Plan Memberships

Plan membership changes for FY2000 were as follows:

	2000	1999	Increase (Decrease)	Change
Active Members*	2,091	2,040	51	3%
Retired Members	945	901	44	5%
Survivors**	173	166	7	4%
TOTAL	**3,209**	**3,107**	**102**	**3%**

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

** Survivor total includes ex-spouses.

Financial and Economic Summary

In spite of volatile investment markets in the second quarter of 2000, investment returns met expectations by matching the earnings assumption rate of 8% during the fiscal year ending June 30, 2000. The well-diversified asset allocation structure played an important role in producing that return.

The economic growth of the 90's is simply not sustainable, as evidenced by the Federal Reserve's concern over inflationary pressures. Given that premise the consistent and conservative investment philosophy followed by the Board in the past becomes even more effective as a long-term strategy for the future.

LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal
10/27/00 Page 4 of 4

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.

The Plan's investments turned in a solid performance during FY2000. The portfolio earned a total return of 8%, meeting the actuarial earnings assumption. Over long-term periods, the portfolio has earned total annualized returns of 11.9% over the past three years and 13.3% over the past five years. On a fair value basis, the total plan net assets grew from $1,574,120,000 to $1,690,690,000, 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%. An eight-year history of the Plan's funding progress is presented on page 30. The net increase in Plan assets for FY2000 was $111,947,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on pages 19.

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

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, 2000, 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)

Charlotte Powers
City Council Member appointed to the Board in June 1994.

Alice Woody
City Council Member appointed to the Board in February 1996.

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. San Francisco, CA
ATTORNEY, BOARD	Saltzman & Johnson San Francisco, CA
ATTORNEY, REAL ESTATE	McCutchen, Doyle, Brown & Enersen Palo Alto, CA
AUDITOR	Macias, Gini & Company, LLP Walnut Creek, CA

STANDING PUBLIC MEETINGS

Board Meetings:	First Thursday of the Month 8:30 AM - City Hall Council Chambers
Investment Subcommittee:	Third Friday of the Month 3:30 P.M. - Department of Retirement Services Office
Real Estate Subcommittee:	Quarterly

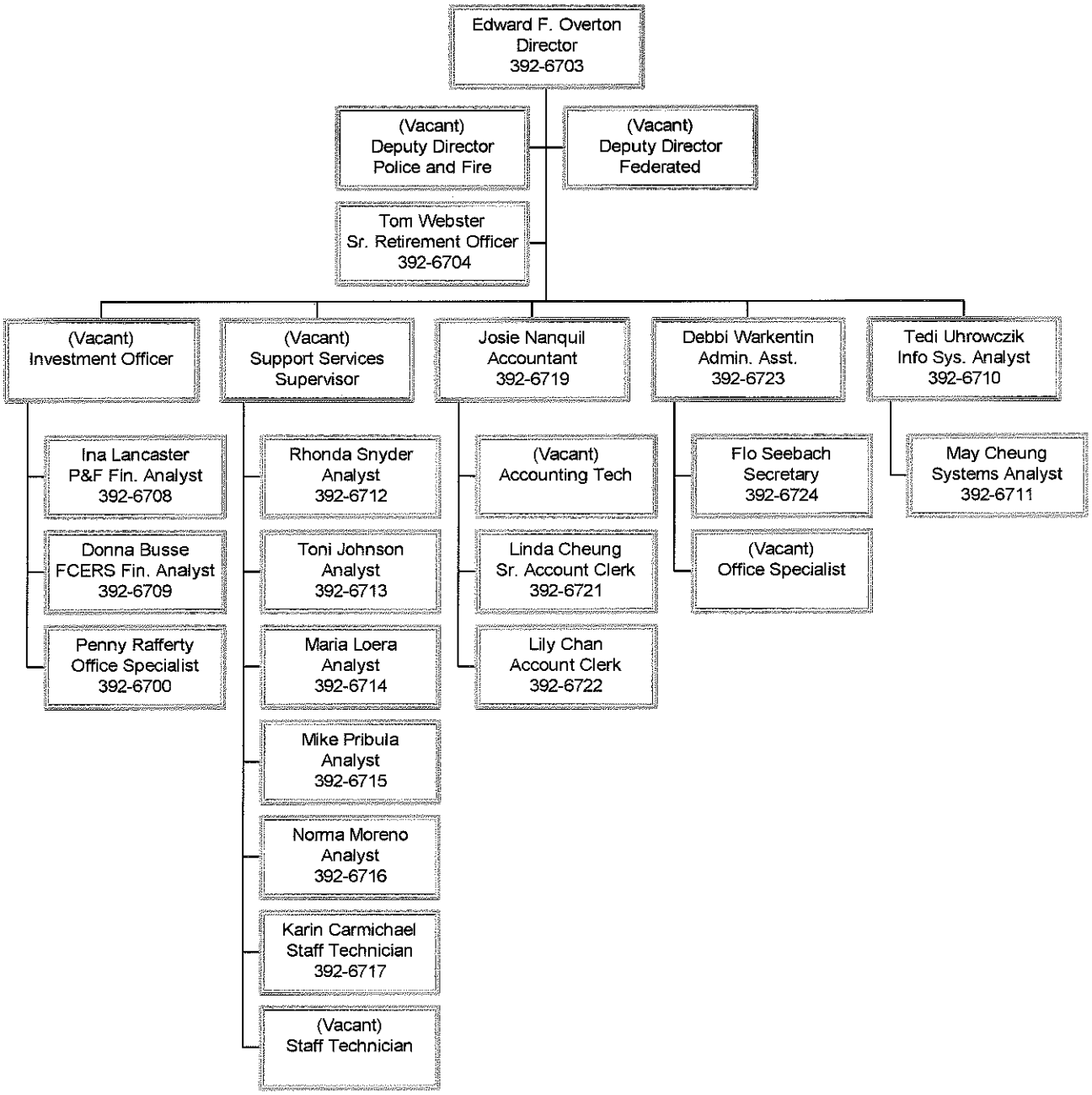
Agendas for all public meetings are posted on the bulletin board in front of City Hall and on the department's website at www.ci.san-jose.ca.us/retire/retirement.htm or they can be obtained in the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112. **Meeting times and locations 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
Senior Retirement Officer

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 15.70% 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; Credit Suisse; Globalt; MIG Realty Advisors; New Amsterdam Partners; PMRealty Advisors; Provident Investment Counsel; Rhumbline; Scudder Kemper Investments; Seix Investment Advisors; and Woodford Capital Management 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. For those who retire on or after February 4, 2000, a straight 3% will be given every year with no excess to be used in future years. This benefit will begin February 1, 2001. A retiree draws no COL increase for the first year, then receives a pro-rated increase for the months before the next April first. Survivors will be paid their first COL increase as if they were a new retiree according to the above schedule.

II.
FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Macias, Gini & Company LLP
Certified Public Accountants and Management Consultants

Partners
Kenneth A. Macias, Managing Partner
Ernest J. Gini
Kevin J. O'Connell
Richard A. Green
Jan A. Rosati
James V. Godsey

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2175 N. California Boulevard
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www.maciasgini.com

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, 2000, and the related statements of changes in plan net assets for the year 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 audit. The financial statements of the Plan as of June 30, 1999, were audited by other auditors, whose report dated August 31, 1999, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 audit provides 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, 2000, and the changes in plan net assets for the year then ended, in conformity with generally accepted accounting principles.

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 25, 2000

OFFICE LOCATIONS
Sacramento • Los Angeles • Fresno • San Francisco Bay Area

STATEMENT OF PLAN NET ASSETS
As of June 30, 2000 and 1999
(In Thousands)

	2000			
	Pension benefits	Post-employment healthcare benefits	Total	1999
ASSETS				
Receivables:				
Employee contributions	$ 248	$ 39	$ 287	$ 732
Employer contributions	529	56	585	1,404
Brokers and others	17,993	282	18,275	19,420
Accrued investment income	9,961	167	10,128	8,084
Total receivables	28,731	544	29,275	29,640
Investments, at fair value:				
Securities and other	1,339,813	24,058	1,363,871	1,321,491
Real estate	147,535	2,657	150,192	119,313
Loaned securities for cash and noncash collateral	207,961	3,604	211,565	131,958
Securities lending collateral	172,041	2,981	175,022	96,766
Total investments	1,867,350	33,300	1,900,650	1,669,528
Total assets	1,896,081	33,844	1,929,925	1,699,168
LIABILITIES:				
Payable to brokers	58,640	963	59,603	19,856
Securities lending collateral, due to borrowers	172,041	2,981	175,022	96,766
Other liabilities	3,891	77	3,968	3,161
Total liabilities	234,572	4,021	238,593	119,783
NET ASSETS HELD IN TRUST FOR:				
Pension benefits	1,661,509	-	1,661,509	1,552,366
Postemployment healthcare benefits	-	29,823	29,823	27,019
Total net assets (A schedule of funding progress is presented on page 30.)	$1,661,509	$ 29,823	$1,691,332	$1,579,385

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Fiscal Year Ended June 30, 2000 and 1999
(In Thousands)

	2000			
	Pension benefits	Post-employment healthcare benefits	Total	1999
ADDITIONS:				
Contributions:				
Employer	$ 27,321	$ 2,866	$ 30,187	$ 26,563
Employee	13,254	2,120	15,374	14,148
Total contributions	40,575	4,986	45,561	40,711
Investment income:				
Net appreciation in fair value of investments	58,446	1,568	60,014	83,742
Interest income	42,425	733	43,158	38,511
Dividend income	10,649	177	10,826	10,024
Net rental income	6,474	112	6,586	9,462
Less investment expense	(5,573)	(100)	(5,673)	(5,095)
Net investment income	112,421	2,490	114,911	136,644
Total additions	152,996	7,476	160,472	177,355
DEDUCTIONS:				
Retirement benefits	40,974	-	40,974	37,207
Healthcare insurance premiums	-	4,649	4,649	4,156
Death benefits	1,689	-	1,689	1,531
Refund of contributions	194	-	194	167
Administrative expenses and other	996	23	1,019	841
Total deductions	43,853	4,672	48,525	43,902
Net increase	109,143	2,804	111,947	133,453
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POSTEMPLOYMENT HEALTHCARE BENEFITS:				
Beginning of year	1,552,366	27,019	1,579,385	1,445,932
End of year	$ 1,661,509	$ 29,823	$ 1,691,332	$ 1,579,385

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2000 and 1999

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 30, 1999, 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 Retirement Administrator, 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 $167,212,000 and $162,100,000 for 2000 and 1999, respectively. Covered payroll amounted to approximately $146,540,000 and $140,826,000 in 2000 and 1999, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2000 and 1999, employee membership data related to the Plan was as follows:

	2000	1999
Defined Benefit Pension Plan:		
Retirees and beneficiaries currently receiving benefits	1,118	1,067
Terminated vested members not yet receiving benefits	34	24
Active members	2,057	2,016
Total	3,209	3,107
Postemployment Healthcare Plan:		
Retirees and beneficiaries currently receiving benefits	1,065	985
Terminated vested members not yet receiving benefits	4	3
Active members	2,057	2,016
Total	3,126	3,004

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, 2000 and 1999

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 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 proceeding the last 12 months of service. These benefit rates and formulas are based on the outcome of the arbitration process and approval by the Plan Board in July 1998. 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.

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.

(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 benefit up to a maximum of 42.5% of final compensation

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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2000 and 1999

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

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 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%.)

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 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%.)

(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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2000 and 1999

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

medical insurance plan available to an active police and fire employee.

(f) Changes in Benefits

Once the ordinances to change the Plan are approved by City Council, effective with retirements on and after February 4, 2000, the normal service retirement benefit will be improved to 2.5% of final average salary for the first 20 years, 3.0% per year for the next 5 years, and 4.0% thereafter, to a maximum of 85% of final average salary. The benefit continuing to eligible survivors will now equal to the greater of 37.5% of final average salary or 50% of the member's benefit.

(g) 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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2000 and 1999

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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 and the Cost-of-Living, Fund (see page 36). As of June 30, 2000, the fund balance, totaling $1,691,332,000 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 2000	Total 1999
Employee contributions	$ 99,729	$ 30,211	$ 129,940	$ 130,598
Designated for unrealized gains on investments held	157,600	17,708	175,308	206,132
General reserve	1,017,552	368,532	1,386,084	1,242,655
Total	$ 1,274,881	$ 416,451	$ 1,691,332	$1,579,385

All contributions go into the general reserve, except employee contributions and unrealized gains, for payment of future benefits as required by San Jose Municipal Code. Employee contributions are accounted for separately due to the possibility of their return to the member upon separation from City employment.

(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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2000 and 1999

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, 2000 and 1999.

The categorization of the Plan's investments (both for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan) as of June 30, 2000 and 1999, was as follows (in thousands):

	Fair Value	
	June 30, 2000	June 30, 1999
Category 1:		
U.S. government securities:		
Not on securities loan	$ 186,714	$ 188,861
Loaned securities for non cash collateral	33,461	28,107
Foreign government bonds	87,731	113,083
Domestic corporate bonds		
Not on securities loan	189,084	160,055
Loaned securities for non cash collateral	1,542	2,902
Foreign corporate bonds	53,630	19,376
Domestic equity securities		
Not on securities loan	568,701	604,583
Loaned securities for non cash collateral	3,722	4,602
Foreign equity securities		
Not on securities loan	187,717	169,832
Loaned securities for non cash collateral	2,820	3,016
Uncategorized:		
Investments held by broker-dealers under securities loans with cash collateral:		
U.S. Treasury bonds and notes	68,543	93,332
U.S. government sponsored agencies	11,650	
Domestic corporate bonds	23,284	
Domestic equity securities	44,956	
Foreign equity securities	21,586	
Short-term foreign currency investments	882	17,141
Collective short-term investment funds	119,861	48,559
Real estate investments	119,743	119,313
Securities lending collateral investment pool	175,023	96,766
Total investments	$ 1,900,650	$ 1,669,528

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2000 and 1999

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, 2000 and 1999 (in thousands):

	June 30, 2000	June 30, 1999
Investments:		
Defined Benefit Pension Plan	$ 1,867,350	$ 1,641,277
Postemployment Healthcare Plan	33,300	28,251
	$ 1,900,650	$ 1,669,528

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 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. Except as provided above, the Plan Custodian shall have no liability to the Board for any failure of a borrower to return loaned securities.

The loaned securities as of June 30, 2000, consisted of U.S. Treasury bonds and notes, domestic corporate 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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2000 and 1999

NOTE 3 – INVESTMENTS (Continued)

Securities lent at year-end for cash collateral are presented as unclassified in the preceding categorization of the Plan's investments, securities lent for noncash collateral are classified according to the category of the related collateral.

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, 2000, the underlying securities loaned by the Plan as a whole amounted to approximately $211,564,000. The cash collateral and the noncash collateral as a whole 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, 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; an office building in Denver, Colorado; an office building near Chicago, IL, and a warehouse in Nashville, TN. Six of the properties located in California are jointly owned with the City's other retirement fund. One of the office buildings located in Northern California (the one located in San Jose) is the solely invested in by the Police and Fire 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, 2000, total commitments in forward currency contracts to purchase and sell foreign currencies were $69,231,000 and $69,231,000, respectively, with market values of $69,270,000 and $70,152,000, respectively. As of June 30, 1999, the Plan had commitments in foreign currency contracts to purchase and sell foreign currencies of $11,545,000 and $29,810,000, respectively, with market values of $11,406,000 and $29,223,000, respectively.

NOTE 4 – CONTRIBUTIONS - FUNDING POLICY

Pursuant to San Jose Municipal Code 3.36.1520, the Police and Fire Retirement Plan Board of Administration is authorized to determine the amount of monthly or bi-weekly contributions. 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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2000 and 1999

NOTE 4 – CONTRIBUTIONS - FUNDING POLICY (Continued)

next 10 years. The significant actuarial assumptions used to compute the actuarially 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 2000 and 1999 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. For the period from July 1, 1998 through November 14, 1998, pursuant to the requirements of the June 30, 1997 actuarial valuation, the City contributed 15.61% and 1.67% of annual covered payroll for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively, and participating employees were required to contributed 8.31% and 1.39%, respectively, of their annual covered payroll.

For the period from November 15, 1998 through June 24, 2000, pursuant to the requirements of the June 30, 1997 actuarial valuation, the City contributed 18.43% and 1.67% of annual covered payroll for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively, and participating employees were required to contribute 8.31 % and 1.39%, respectively, of their annual covered payroll. For the period from June 25, 2000 through June 30, 2000, the City contributed 14.10% and 1.60% of annual covered payroll for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively, and participating employees were required to contribute 8.43% and 1.36%, respectively, of their annual covered payroll to such plans. Contributions to the Defined Benefit Pension Plan and the Postemployment Healthcare Plan made by the City and the participating employees totaled $40,575,000 and $4,986,000, respectively, for 2000 and $35,991,000 and $4,720,000, respectively, for 1999.

NOTE 5 – CONCENTRATIONS

No investments in any one organization represent 5% of fund 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)
06/30/1993	$714,592	$716,123	$1,531	99.8%	$98,831	2%
06/30/1995	$854,414	$828,739	($25,675)	103.1%	$109,196	-24%
06/30/1997 [3]	$1,124,294	$1,030,168	($94,126)	109.1%	$129,850	-72%
06/30/1999 [4]	$1,440,117	$1,249,014	($191,103)	115.3%	$144,125	-133%
06/30/1999 [5]	$1,440,117	$1,276,364	($163,753)	112.8%	$144,125	-114%

[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
1995	$ 22,715	100%
1996	23,601	100%
1997	24,685	100%
1998	23,643	100%
1999	23,522	100%
2000	27,321	100%

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION DEFINED BENEFIT PENSION PLAN (Unaudited - See accompanying independent auditor's report) Year Ended June 30, 2000

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. 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	4.50% a year

OTHER SUPPLEMENTAL INFORMATION

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS
June 30, 2000
(In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ASSETS			
Receivables:			
Employee contributions	$ 179	$ 69	$ 248
Employer contributions	293	236	529
Brokers and others	11,815	6,178	17,993
Accrued investment income	6,994	2,967	9,961
Total receivables	19,281	9,450	28,731
Investments, at fair value:			
Securities and other	1,028,900	340,844	1,369,744
Real estate	89,545	28,059	117,604
Loaned securities for cash and noncash collateral	150,872	57,089	207,961
Securities lending collateral	124,813	47,228	172,041
Total investments	1,394,130	473,220	1,867,350
Total assets	1,413,411	482,670	1,896,081
LIABILITIES:			
Payable to brokers	40,318	18,322	58,640
Securities lending collateral, due to borrowers	124,813	47,228	172,041
Other liabilities	3,222	669	3,891
Total liabilities	168,353	66,219	234,572
Plan net assets held in trust for pension benefits	$ 1,245,058	$ 416,451	$ 1,661,509

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS
For the Fiscal Year Ended June 30, 2000
(In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS:			
Contributions:			
Employer	$ 15,129	$ 12,192	$ 27,321
Employee	9,656	3,598	13,254
Total contributions	24,785	15,790	40,575
Investment income:			
Interest income	30,897	11,528	42,425
Dividend income	7,484	3,165	10,649
Net appreciation in fair value of investments	66,087	(7,641)	58,446
Net rental income	4,720	1,754	6,474
Less investment expense	(4,098)	(1,330)	(5,428)
Total investment income	105,090	7,476	112,566
Total additions	129,875	23,266	153,141
DEDUCTIONS:			
Retirement benefits	33,236	7,738	40,974
Death benefits	1,689	-	1,689
Refund of contributions	150	44	194
Administrative expenses and other	1,109	32	1,141
Total deductions	36,184	7,814	43,998
Net increase	93,691	15,452	109,143
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of year	1,151,367	400,999	1,552,366
End of year	$ 1,245,058	$ 416,451	$ 1,661,509

SCHEDULE OF ADMINISTRATIVE EXPENSES AND OTHER
For Years Ending June 30, 2000 and 1999

	2000			1999
	Original Budget	Actual	Variance Favorable (Unfavorable)	Actual
Personnel Services:				
Permanent Staff Expense	$ 610,500	$ 572,059	$ 38,441	$ 474,959
Total Personnel Services	610,500	572,059	38,441	474,959
Professional Services:				
Actuarial Services	260,000	217,084	42,916	78,066
Medical Services	140,400	78,946	61,454	50,592
Audit	15,000	11,999	3,001	14,627
Legal Counsel	25,000	19,653	5,347	39,816
Network Consultant	14,400	7,354	7,046	9,818
Software Development Consultant	68,950	64,745	4,205	2,707
IRRC Proxy Voting	20,000	18,358	1,642	13,716
Pension Benefit Information	800	449	351	410
Total Professional Services	544,550	418,588	125,962	209,752
Communication:				
Postage	12,000	7,823	4,177	6,407
Printing	13,000	7,545	5,455	8,936
Duplicating	7,000	3,872	3,128	4,298
Data Processing	6,000	2,803	3,197	4,083
Travel	92,000	59,018	32,982	52,527
Total Communication	130,000	81,061	48,939	76,251
Structure and Equipment:				
Copier Lease	3,000	2,484	516	2,875
Copier Maintenance	2,000	1,764	236	1,507
Equipment	6,500	6,104	396	2,482
Equipment Repair & Miscellaneous Services	3,000	2,598	402	0
Software Enhancements	82,100	2,325	79,775	0
Computer Hardware/Software	7,000	6,647	353	9,317
Total Structure and Equipment	103,600	21,922	81,678	16,181
Miscellaneous:				
Office Expense	24,000	15,787	8,213	15,326
Dues/Subscriptions	3,000	1,394	1,606	2,199
Training	26,000	25,139	861	16,492
Rent on Building	35,000	31,080	3,920	30,108
Total Miscellaneous	88,000	73,400	14,600	64,125
Total Administrative Expenses and Other	$ 1,476,650	$ 1,167,030	$ 309,620	$ 841,268

SCHEDULE OF INVESTMENT EXPENSES
For Years Ending June 30, 2000 and 1999

	2000	1999
EQUITY		
Domestic Equity	$ 2,354,733	$ 2,167,820
International Equity	1,039,325	840,752
TOTAL EQUITY	3,394,058	3,008,572
FIXED INCOME		
Domestic Fixed Income	625,491	654,513
Global Fixed Income	388,650	393,437
TOTAL FIXED INCOME	1,014,141	1,047,950
REAL ESTATE	948,199	784,166
CASH (Custodian STIF)	51,816	78,012
Total Investment Managers' Fees	5,408,214	4,918,700
OTHER INVESTMENT SERVICE FEES		
Investment Consultant	130,000	88,692
Proxy Voting	18,358	13,716
Custodian	116,626	72,982
Total Other Investment Service Fees	264,984	175,390
TOTAL INVESTMENT EXPENSES	**$ 5,673,198**	**$ 5,094,090**

SCHEDULE OF PAYMENTS TO CONSULTANTS
For Years Ending June 30, 2000 and 1999

FIRM	NATURE OF SERVICE	FEES 2000	FEES 1999
William Mercer, Inc.	Actuarial Consultant	$ 97,054	$ 9,374
KPMG Peat Marwick	External Auditors	11,999	14,627
Saltzman & Johnson	Legal Counsel	19,653	39,816
Palo Alto Medical/Other Medical	Medical Consultant	78,946	76,592
LanMinds	Network Maintenance/Consultant	7,354	9,818
Pension Benefit Information	Reports on Deceased Benefit Receipients	449	410
TOTAL		**$ 215,455**	**$ 150,637**

III.
INVESTMENT SECTION

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REPORT ON INVESTMENT ACTIVITY

MERCER
INVESTMENT
CONSULTING, INC

August 30, 2000

Mr. Ed Overton
Secretary, Board of Administration
San Jose Police & Fire Department Retirement Plan
777 North First Street, Suite 750
San Jose, CA 95112

Dear Mr. Overton:

William M. Mercer, Incorporated calculates and reviews the investment performance of the San Jose Police and Fire Retirement System each quarter. The calculations are based on custodial statements and are made in compliance with the AIMR standards. As the System's independent investment consultant, Mercer also reconciles the calculations with the investment managers each quarter to ensure accuracy. Investment returns for each manager are compared to a benchmark index as well as a peer universe of investment manager returns.

Mercer also calculates a time weighted total return for the total plan assets each quarter. That return is compared with the "TUCS" Public Fund Universe quarterly. It is important to note that San Jose has historically implemented a more conservative asset allocation strategy than the average public fund.

The System recently commissioned Mercer to conduct an Asset/Liability Study to stress test the actuarial assumptions and the potential investment returns. The net result of that study confirmed that the conservative investment structure that has been in place for the past five years is consistent with the actuarial assumptions and liability stream. The Board might diversify further but the final result will not change the risk/return characteristics of the investments.

San Jose's long-term investment objective is to meet or exceed the actuarial earnings assumption of 8% by investing prudently in accordance with governing law and industry practices. Given this objective, it is our observation that the investment decision making process followed by the Board over the past five years has consistently met that goal.

777 South Figueroa Street
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Los Angeles, CA 90017

213 346 3200
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A Marsh & McLennan Company

REPORT ON INVESTMENT ACTIVITY (Continued)

MERCER
INVESTMENT
CONSULTING, INC.

Mr. Ed Overton
August 30, 2000
Page 2

In spite of volatile investment markets in the second quarter of 2000, investment returns met expectations by matching the earnings assumption rate of 8.0% during the fiscal year ending June 30, 2000. The well diversified asset allocation structure played an important role in producing that return. The five-year average annual return has been 13.3% so an 8% return may appear to be disappointing. However, Mercer continues to believe that returns in the next five years will be lower than the last five years.

The economic growth of the 90's is simply not sustainable, as evidenced by the Fed's concern over inflationary pressures. Given that premise, the consistent and conservative investment process followed by the Board in the past, becomes even more effective as a long-term strategy for the future.

Sincerely,

Thomas J. Lightvoet

TJL/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	Actual	Maximum
Bonds	25%	35%	43%	60%
Bonds - Global	0%	10%	7%	15%
Stocks - U.S.	30%	35%	40%	45%
Stocks - International	0%	10%	7%	15%
Real Estate	0%	10%	3%	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

Crabbe Huson Group, Inc.
Small Cap Value
Portland, OR

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, 2000

	One Year	Three Years	Five Years
TOTAL FUND	**8.0%**	**11.9%**	**13.3%**
Benchmark	7.6%	12.1%	13.2%
Mercer Balanced Universe Median	10.6%	12.1%	13.1%
TUCS Public Fund Universe Median	9.4%	12.4%	14.7%
TOTAL DOMESTIC FIXED INCOME	**4.1%**	**5.6%**	**6.0%**
Lehman Brothers Aggegate Bond Index	4.6%	6.0%	6.2%
Mercer Fixed Income Core Median	4.3%	5.9%	6.3%
TOTAL GLOBAL FIXED INCOME	**0.0%**	**2.9%**	**4.1%**
Salomon Brothers World Gov't Bond Index	3.2%	3.9%	3.2%
Mercer Global Fixed Income Unhedged Median	1.3%	3.3%	4.5%
TOTAL DOMESTIC EQUITY	**7.4%**	**15.0%**	**19.2%**
S&P 500 Index	7.3%	19.7%	23.8%
Mercer Managed Equity Median	14.1%	17.5%	20.7%
TOTAL INTERNATIONAL EQUITY	**27.0%**	**18.8%**	**18.2%**
EAFE Index	17.2%	10.2%	11.3%
Mercer International Equity Median	26.0%	13.9%	15.4%
TOTAL REAL ESTATE	**11.9%**	**12.5%**	**11.1%**
NCREIF Property Index	11.6%	13.9%	12.1%
Mercer Real Estate Median	10.9%	14.6%	12.5%

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER
Periods Ending June 30, 2000

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, 2000.

	One Year	Three Years	5 Years
DOMESTIC FIXED INCOME			
Scudder Kemper	**4.3%**	**5.7%**	**6.1%**
Lehman Brothers Aggegate Bond Index + 50 bps	5.1%	6.5%	6.8%
Mercer Fixed Income Core Median	4.3%	5.9%	6.3%
	Quarter	**6 Months**	**Inception (10/99)**
Chicago Capital Management	**1.4%**	**3.8% +**	**3.7%**
Seix Investment Advisors	**1.6%**	**3.5%**	**3.8% +**
Lehman Brothers Aggegate Bond Index + 50 bps	1.9%	4.2%	4.2%
Mercer Fixed Income Core Median	1.6%	3.7%	3.7%
	One Year	**Three Years**	**5 Years**
GLOBAL FIXED INCOME			
Credit Suisse Investment Management	**-0.3%**	**2.6%**	**3.8%**
Salomon Brothers World Gov't Bond Index + 75 bp	3.9%	4.6%	3.9%
Mercer Global Fixed Income Unhedged Median	1.3%	3.3%	4.5%
DOMESTIC EQUITY			
Rhumbline Advisors (Index)	**7.3%**	**19.9% ++**	**23.8% +**
S&P 500 Index	7.3%	19.7%	23.8%
Mercer Managed Equity Median	14.1%	17.5%	20.7%
American Re Asset Management (Large Cap Value)	**-4.5% +**	**9.7% +**	**16.9% +**
Russell 1000 Index + 100 bps	10.3%	21.0%	24.7%
Mercer Large Cap Value Universe Median	-6.6%	8.8%	16.2%
Brinson Partners (Large Cap Value)	**-16.0%**	**5.6% +**	**15.3%**
Wilshire 5000 Index + 100 bps	10.8%	20.3%	23.7%
Mercer Large Cap Value Universe Median	-6.6%	8.8%	16.2%
	One Year	**Three Years**	**Inception (7/96)**
Boston Partners (Large Cap Value)	**-4.7% +**	**4.6%**	**11.9%**
Russell 1000 Index + 100 bps	10.3%	21.0%	24.0%
Mercer Large Cap Value Universe Median	-6.6%	8.8%	14.1%

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

	One Year	Three Years	Five Years
New Amsterdam Partners (Large Cap Growth)	**17.3% +**	**21.8% +**	**23.5%**
S&P 500 + 100 bps	8.3%	20.8%	25.0%
Mercer Large Cap Growth Universe Median	21.9%	25.0%	26.0%
Woodford Capital Management	**4.0%**	**18.4%**	**21.2%**
S&P 500 + 100 bps	8.3%	20.8%	25.0%
Mercer Large Cap Growth Universe Median	21.9%	25.0%	26.0%

	6 Months	One Year	Inception (7/98)
Alliance Capital Management (Large Cap Growth)	**0.8%**	**15.0% +**	**19.1% +**
Russell 1000 Index + 100 bps	1.3%	10.3%	16.1%
Mercer Large Cap Growth Universe Median	3.6%	21.9%	22.3%
Globalt, Inc. (Large Cap Growth)	**7.9% ++**	**30.0% ++**	**18.9% +**
Russell 1000 Index + 100 bps	1.3%	10.3%	16.1%
Mercer Large Cap Growth Universe Median	3.6%	21.9%	22.3%

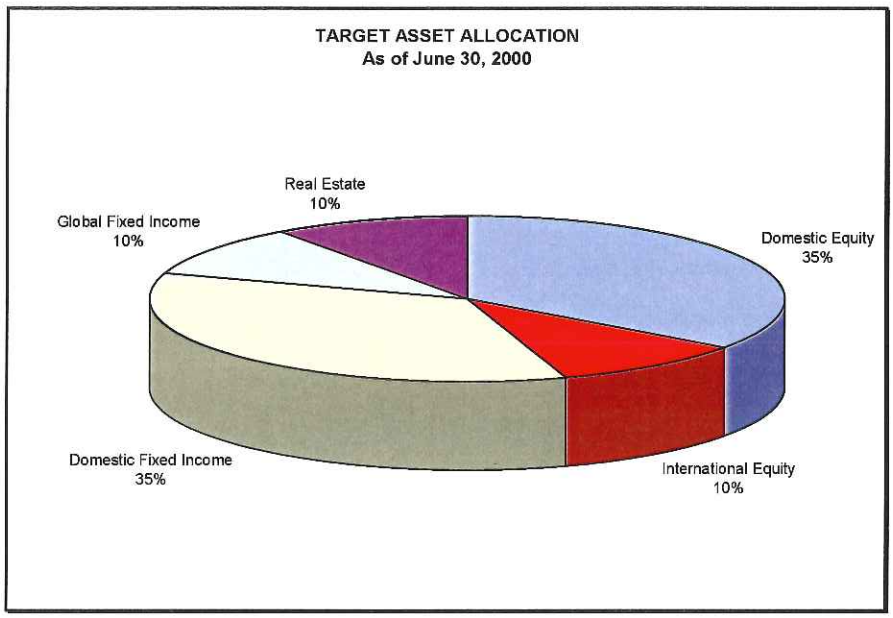
	6 Months	One Year	Inception (1/98)
Crabbe Huson (Small Cap Value)	**9.2% ++**	**10.5% +**	**-7.1%**
Russell 2000 Index + 200 bps	4.1%	16.6%	10.3%
Mercer Small Cap Value Universe Median	5.4%	3.5%	2.6%
Provident Investment Counsel (Small Cap Growth)	**10.6% ++**	**87.0% ++**	**38.0% ++**
Russell 2000 Index + 200 bps	4.1%	16.6%	10.3%
Mercer Small Cap Growth Universe Median	10.4%	49.2%	23.7%

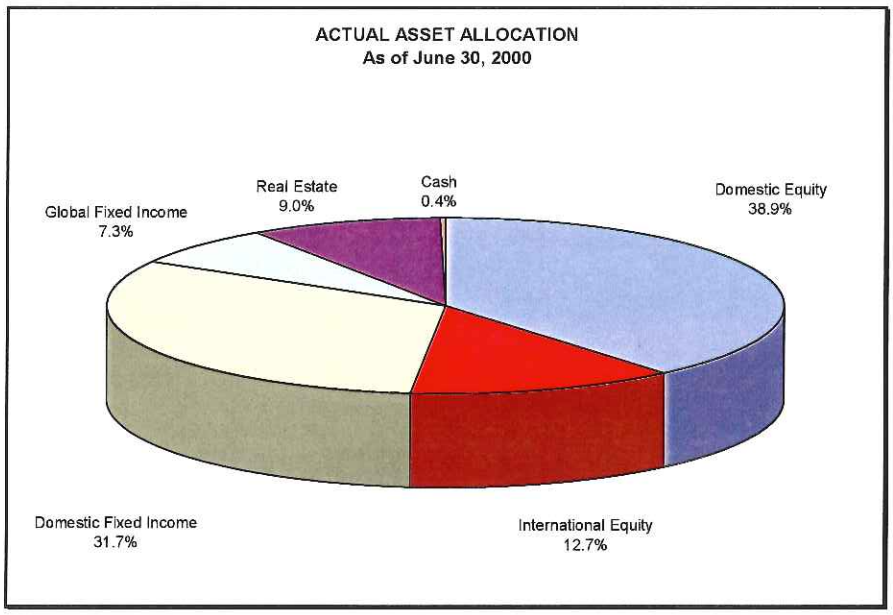
	One Year	Three Years	Inception (1/97)
INTERNATIONAL EQUITY			
Bank of Ireland Asset Management	**23.1% +**	**14.0% ++**	**15.6% +**
EAFE Index + 200 bps	19.4%	12.4%	14.2%
Mercer International Equity Median	26.0%	13.9%	15.8%
Brandes Investment Partners	**28.6% ++**	**21.3% ++**	**24.5% ++**
EAFE Index + 200 bps	19.4%	12.4%	14.2%
Mercer International Equity Median	26.0%	13.9%	15.8%

	One Year	Three Years	Five Years
REAL ESTATE			
MIG Realty Advisors	**12.0% +**	**12.6%**	**10.7%**
NCREIF Property Index + 150 bps	13.2%	15.6%	13.7%
Mercer Real Estate Median	10.9%	14.6%	12.5%

	6 Months	One Year	Inception (7/98)
PM Realty Advisors	**4.1%**	**9.0%**	**8.9%**
NCREIF Property Index + 150 bps	6.3%	13.2%	13.8%
Mercer Real Estate Median	4.7%	10.9%	12.3%

ASSET ALLOCATION
Target Vs. Actual

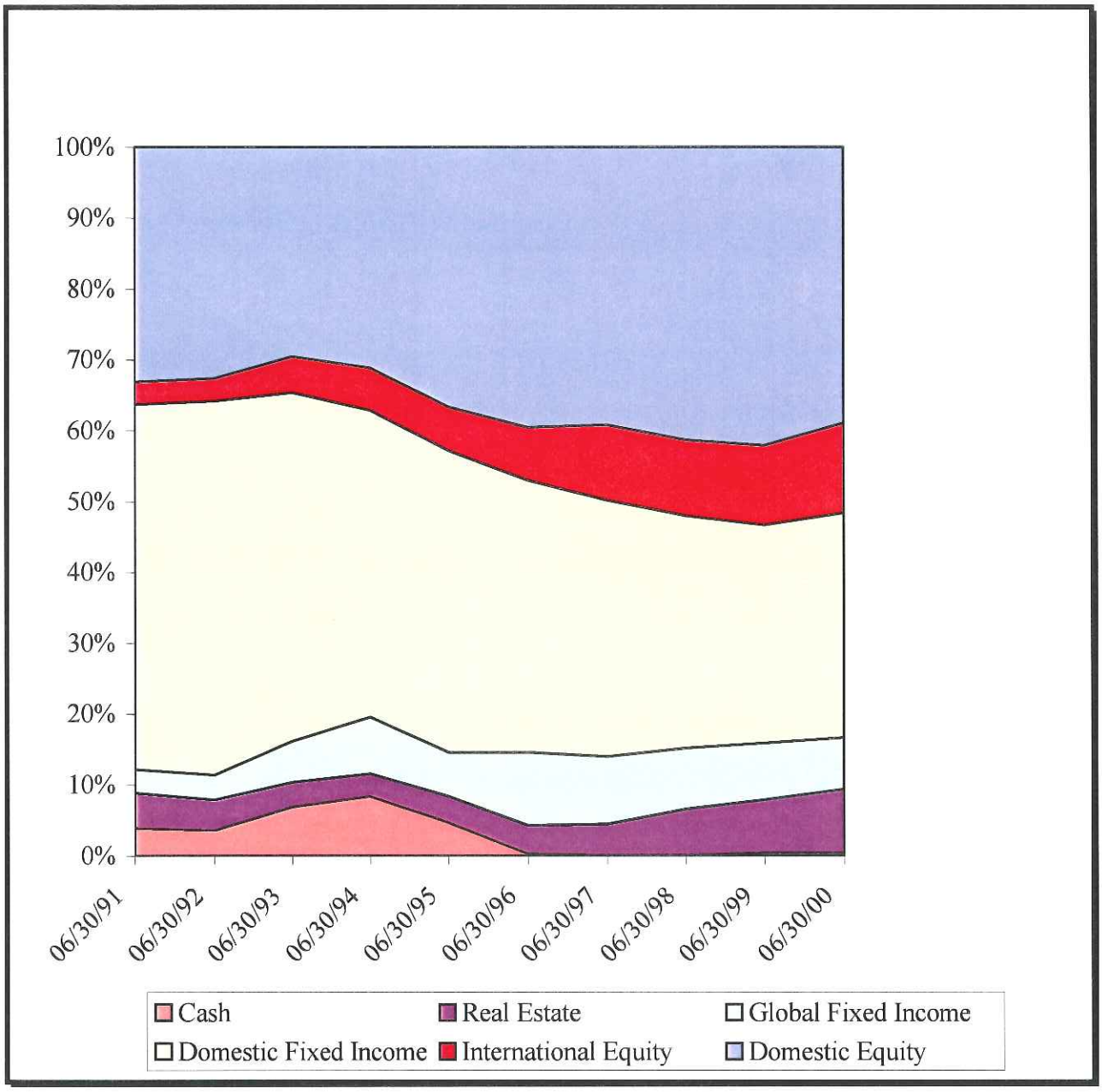




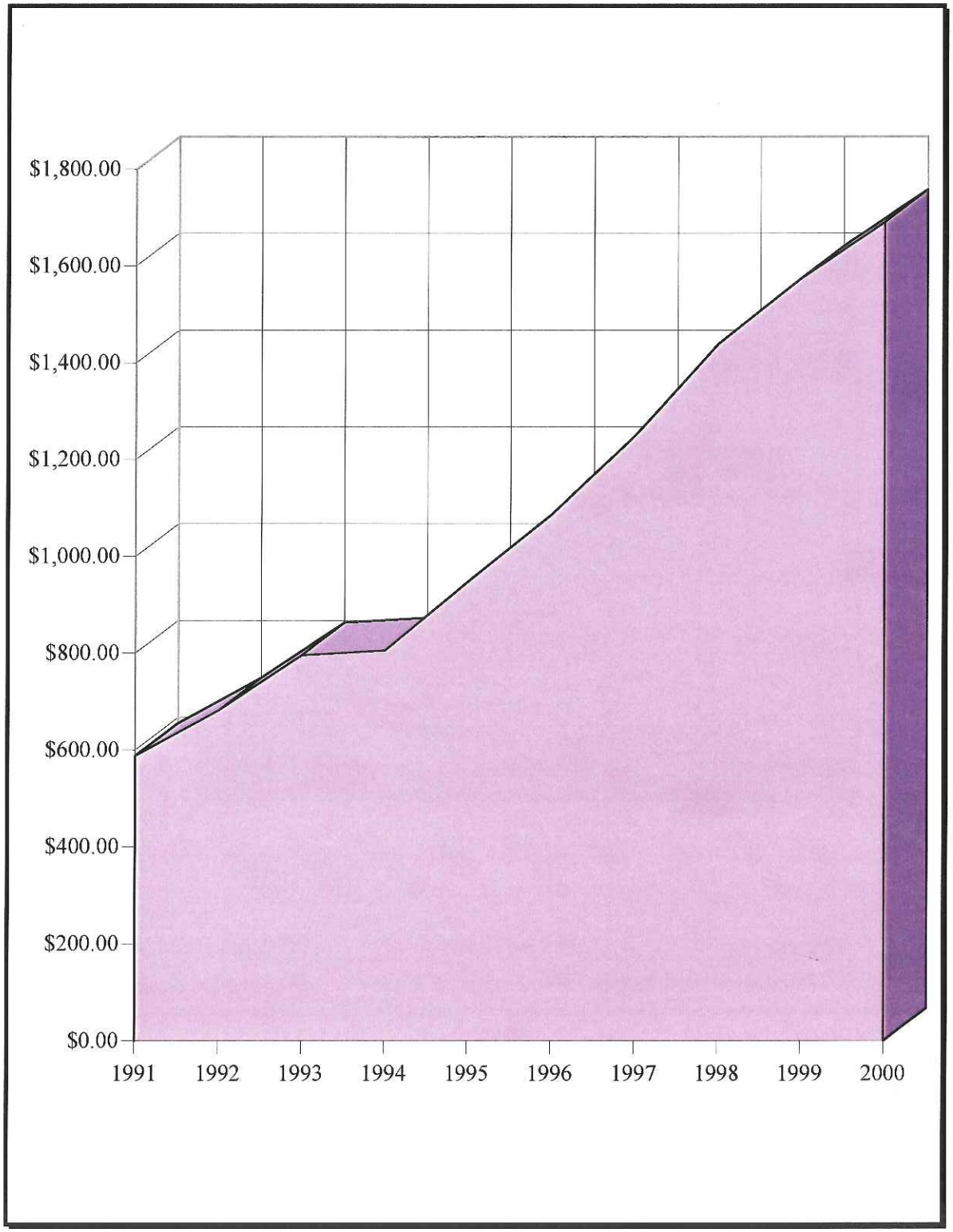
ACTUAL ASSET ALLOCATION
As of June 30, 2000 (In Millions)

Domestic Equity	$658.20
International Equity	214.73
Domestic Fixed Income	536.43
Global Fixed Income	122.73
Real Estate	152.31
Cash	6.29
TOTAL	$1,690.69

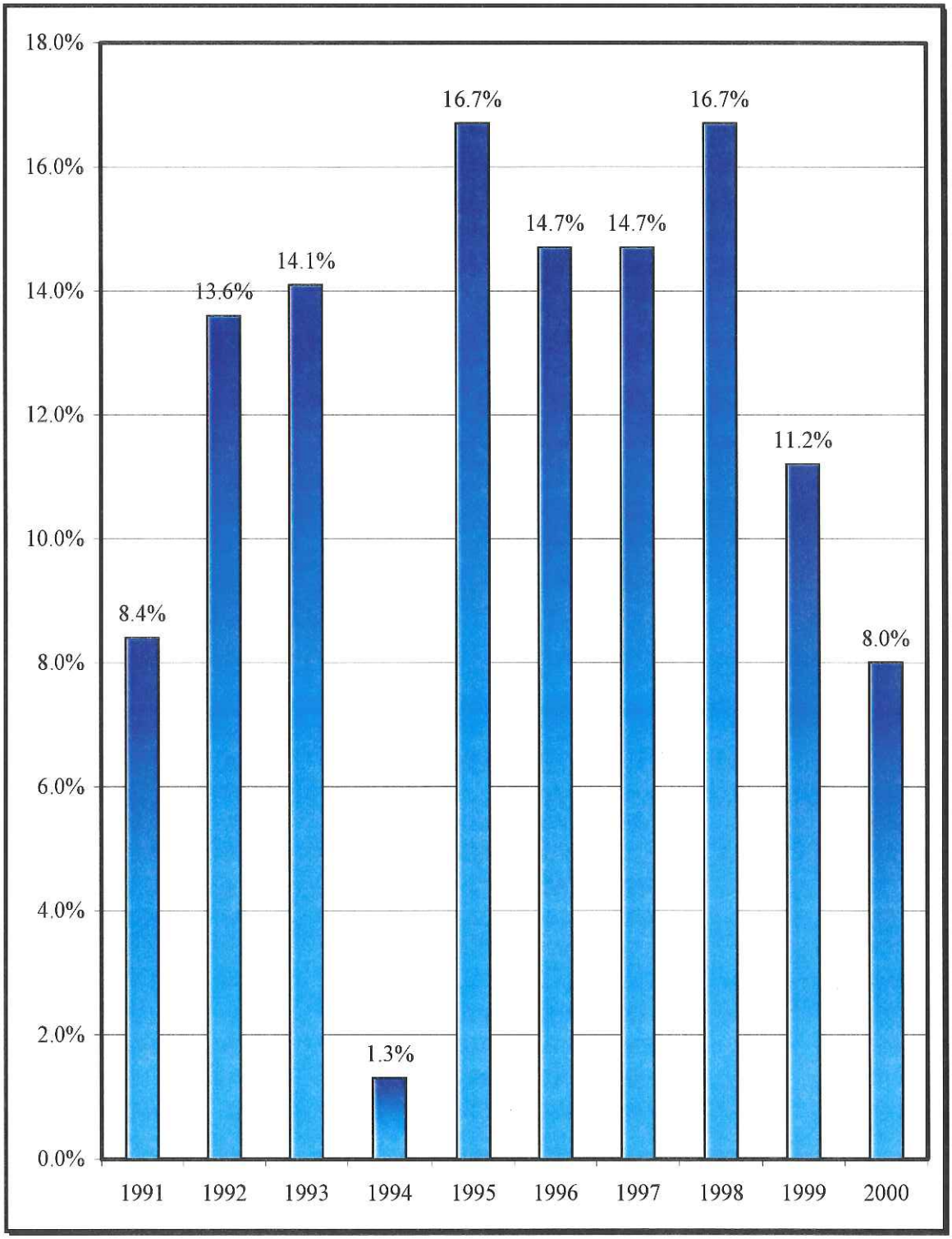
HISTORICAL ASSET ALLOCATION (Actual)
June 1991 - June 2000



MARKET VALUE GROWTH OF PLAN ASSETS
For Ten Years Ended June 30, 2000
(In Millions of Dollars)



HISTORY OF PERFORMANCE
(Based on Market Value)
For Fiscal Years 1991 - 2000



LIST OF LARGEST ASSETS HELD

LARGEST STOCK HOLDINGS (By Market Value)
June 30, 2000

Shares	Country	Description	Market Value
239,700	United States	CISCO SYSTEMS	15,235,931
259,675	United States	GENERAL ELECTRIC CO	13,762,775
92,700	United States	INTEL CORP	12,392,831
185,412	United States	CITIGROUP INC	11,171,073
138,850	United States	MICROSOFT CORP	11,108,000
197,000	United States	PFIZER INC	9,456,000
109,903	Netherlands	ING GROEP NV CVA	7,458,193
466,000	Japan	HITACHI ORD	6,738,588
55,395	United States	AMERICAN INTL GROUP INC	6,508,913
77,300	United States	ORACLE CORP	6,498,031

LARGEST BOND HOLDINGS (By Market Value)
June 30, 2000

	Par Value	Country	Description	Interest Rate	Maturity Date	Mkt. Value in $USD
1)	23,739,000	U.S.	UNITED STATES TREAS BOND	6.625	2/15/27	$25,174,497
2)	16,735,000	U.S.	UNITED STATES TREAS BOND	7.250	5/15/16	$18,416,365
3)	12,735,000	U.S.	FEDERAL NATL MTG ASSN	6.500	7/1/30	$12,006,717
4)	11,391,257	U.S.	FEDERAL HOME LOAN MTG CORP	7.500	2/1/30	$11,238,159
5)	10,976,000	U.S.	UNITED STATES TREAS BOND	6.125	11/15/27	$10,946,804
6)	10,745,000	U.S.	FEDERAL NATL MTG ASSN	7.000	7/17/30	$10,373,962
7)	980,000,000	Japan	OESTERREICH KONTROLLBANK	1.800	3/22/10	$9,331,741
8)	8,640,000	U.S.	FEDERAL HOME LOAN MTG CORP	5.750	3/15/09	$7,865,078
9)	8,108,303	U.S.	FEDERAL NATL MTG ASSN	6.000	1/1/29	$7,421,611
10)	7,097,265	U.S.	FEDERAL NATL MTG ASSN	6.500	8/1/29	$6,698,044

A complete list of portfolio holdings is available upon request.

SCHEDULE OF FEES AND COMMISSIONS
For the Year Ended June 30, 2000

INVESTMENT FEES

	Assets Under Mgt. at Market Value	Fees	Basis Points
Investment Managers' Fees:			
Domestic Equity Managers	$ 658,200,000	$ 2,354,733	36
International Equity Managers	214,730,000	1,039,325	48
Domestic Fixed Income Managers	536,430,000	625,491	12
Global Fixed Income Managers	122,730,000	388,650	32
Real Estate Managers	152,310,000	948,199	62
Cash (STIF)	6,290,000	51,816	N/A
Total Investment Managers' Fees	**$ 1,690,690,000**	**$5,408,214**	32
Other Investment Service Fees:			
Investment Consultant	N/A	$ 130,000	N/A
Proxy Voting	N/A	18,358	N/A
Custodian	N/A	116,626	N/A
Total Investment Managers' Fees		**$ 264,984**	

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE
ABN AMRO BANK N.V. / NEW YORK	366,794	$3,505.63	0.00956
ABN AMRO EQUITIES (UK) LTD	28,199	$660.54	0.02342
ABN AMRO EQUITIES AUSTRALIA LTD	37,404	$766.23	0.02049
ALLEN & COMPANY INCORPORATED	5,900	$354.00	0.06000
AUTRANET INC	1,200	$4,983.00	4.15250
AUTRANET INC. - FIXED INCOME	23,000,000	$7,282.66	0.00032
BAIRD (ROBERT W.) & CO. INC.	999,100	$65.00	0.00007
BANCAMERICA ROBERTSON STEPHENS	127,550	$6,367.00	0.04992
BANK JULIUS BAER AND CO LTD / NEW YORK	13,000	$806.78	0.06206
BANK OF NEW YORK / BRUSSELS	7,550	$116.51	0.01543
BANK OF NEW YORK / LONDON	958	$301.00	0.31420
BANK OF NEW YORK / NEW YORK	8	$143.36	17.92000
BARING SECURITIES / HONG KONG	27,800	$1,207.98	0.04345
BARING SECURITIES INC	119,900	$30.00	0.00025
BEAR STEARNS & CO	13,320,489	$13,864.00	0.00104
BEAR STEARNS & CO. INC.	2,080,750	$4,291.00	0.00206

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE
BEAR STEARNS SECS CORP / NEW YORK	8,200	$2,915.73	0.35558
BERNSTEIN (SANFORD C) & CO INC	14,529	$23,165.55	1.59444
BHF SECURITIES CORPORATION	156,100	$17,100.00	0.10955
BLAIR (WILLIAM) & CO.	178,800	$1,797.00	0.01005
BNY ESI & CO - ALPHA DIVIS	2,400	$200.00	0.08333
BOSTON INSTITUTION SERVICES	600	$640.00	1.06667
BRIDGE TRADING CO	44,700	$10,981.00	0.24566
BROADCOURT CAPITAL CORP	52,900	$14,435.00	0.27287
BROCKHOUSE & COOPER / MONTREAL	21,600	$246.26	0.01140
BROWN	30,200	$1,532.00	0.05073
BT ALEX BROWN INC	11,400	$684.00	0.06000
B-TRADE SERVICES LLC	17,525	$1,124.50	0.06417
BUNTING WARBURG INC	41,100	$205.50	0.00500
CANTOR FITZGERALD & CO. INC.	147,100	$421.00	0.00286
CAPITAL INST SVCS	1,622,700	$945.00	0.00058
CAPITAL RESOURCES FIN SERV	3,100	$186.00	0.06000
CAZENOVE AND CO. / LONDON	175,383	$2,095.25	0.01195
CHAPMAN & CO	197,000	$16,527.00	0.08389
CHICAGO	18,200	$7,202.00	0.39571
CHICAGO CORPORATION	675,200	$3,280.00	0.00486
CIBS OPPENHEIMER CORP	2,363,600	$7,709.00	0.00326
CLEARY GULL REILAND	3,100	$1,257.00	0.40548
CORRESPONDENT SERVICES CORP	338,200	$1,340.00	0.00396
COUNTY SECURITIES CORP USA	846,450	$11,389.00	0.01346
COWEN & CO	244,672	$5,969.00	0.02440
CREDIT LYONNAIS	400	$20.00	0.05000
CREDIT LYONNAIS SECURITIES	52,000	$1,998.28	0.03843
CREDIT LYONNAIS SECURITIES (ASIA) / H.K.	39,000	$1,085.06	0.02782
CREDIT LYONNAIS SECURITIES (ASIA) LTD	16,000	$361.08	0.02257
CREDIT SUISSE FIRST BOSTON	103,442	$7,929.32	0.07665
CREDIT SUISSE FIRST BOSTON / HONG KONG	83,400	$1,493.49	0.01791
CREDIT SUISSE FIRST BOSTON EQUITIES	146,901	$2,233.83	0.01521
CREDIT SUISSE FIRST BOSTON GLOBAL	10,420	$330.64	0.03173
CS FIRST BOSTON AUSTRALIA EQUITIES LTD	25,650	$628.20	0.02449
CS FIRST BOSTON GROUP / NEW YORK	81,000	$869.85	0.01074
DAIN BOSWORTH INCORPORATED	1,140,000	$90.00	0.00008
DAVIDSON (D.A.) & CO. INC.	18,925	$2,087.25	0.11029
DEUTSCHE BANK AG / LONDON	37,763	$437.12	0.01158
DEUTSCHE BANK AG / NEW YORK	141,607	$1,823.38	0.01288
DEUTSCHE BANK AG / WELLINGTON	112,000	$1,368.19	0.01222
DEUTSCHE MORGAN GRENFELL / LONDON	111,546	$998.61	0.00895
DEUTSCHE MORGAN GRENFELL SECS AUST	18,076	$262.99	0.01455
DLJ INTERNATIONAL SECURITIES	680	$237.45	0.34919
DOMINICK INVESTOR SERVS CORP	3,800	$228.00	0.06000
DOMINION SECURITIES / AMES INC	2,300	$324.00	0.14087

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE
DONALDSON LUFKIN AND JENRETTE / LONDON	2,525	$111.21	0.04404
DONALDSON LUFKIN AND JENRETTE SECS	2,600	$67.00	0.02577
DRESEDNER KLEINWORT BENSON AMERICA	12,000	$384.11	0.03201
EBERSTADT (F.) & CO. INC.	174,000	$18,084.30	0.10393
EDGE SECURITIES INC	4,900	$245.00	0.05000
EDWARDS (A.G.) & SONS INC.	15,500	$1,105.00	0.07129
ENSKILDA CORPORATE / LONDON	3,900	$4,295.95	1.10153
ERNST & CO	6,100	$183.00	0.03000
EXECUTION SERVICES INCORP	68,484	$3,713.52	0.05422
FACTSET DATA SYSTEMS INC	69,800	$12,384.00	0.17742
FACTSET DATA SYSTMES INC/BCC	3,300	$225.00	0.06818
FC FINANCIAL SERVICES	15,500	$1,917.00	0.12368
FIDELITY CAPITAL MARKETS/NFSC	12,700	$1,762.00	0.13874
FIRST ALBANY CORPORATION	1,828,500	$235.00	0.00013
FIRST BOSTON CORPORATION	41,521,598	$21,766.00	0.00052
FIRST UNION CAPITAL MKTS	635,800	$160.00	0.00025
FOX-PITT KELTON / LONDON	250	$11.69	0.04676
FOX-PITT KELTON INC.	4,800	$625.00	0.13021
FP MAGLIO & CO. INC.	95,068	$8,426.04	0.08863
FRANK RUSSELL SECURITIES INC	4,400	$550.00	0.12500
FREIMARK BLAIR & COMPANY	2,400	$144.00	0.06000
FURMAN SELZ MAGER DIETZ BIRNEY	21,200	$513.00	0.02420
GANT J W & CO	7,200	$360.00	0.05000
GARDNER RICH & CO	83,900	$13,396.00	0.15967
GERARD KLAUER	2,300	$130.00	0.05652
GOLDIS-PITTSBURG INSTIT SERVIC	35,025	$2,051.25	0.05857
GOLDMAN SACHS & CO.	36,798,447	$29,951.12	0.00081
GOLDMAN SACHS AND CO / NEW YORK	251,345	$9,698.22	0.03859
GOLDMAN SACHS EQUITY SECS / LONDON	4,170	$52.74	0.01265
GOLDMAN SACHS GOVT SECS / LONDON	45,600	$614.44	0.01347
GOLDMAN SACHS INT'L / LONDON	145,042	$5,796.97	0.03997
GOLDSMITH & HARRIS	6,900	$300.00	0.04348
GOODBODY STOCKBROKERS / DUBLIN	8,499	$59.66	0.00702
GOODBODY STOCKBROKERS / LONDON	27,900	$161.78	0.00580
GREAT PACIFIC SECURITIES INC	45,125	$5,668.50	0.12562
GREENSTREET ADVISORS	29,000	$1,450.00	0.05000
GRUNTAL & CO LLC	598,800	$348.00	0.00058
GS2 SECURITIES	3,200	$192.00	0.06000
HAMBRECHT & QUIST INCORPATION	36,500	$1,022.00	0.02800
HOENIG & CO INC / LONDON	2,006,800	$24,700.40	0.01231
HOENIG & CO INC / NEW YORK	51,850	$2,792.74	0.05386
HOENIG & CO. INC.	46,264	$47,846.20	1.03420
HOENIG FAR EAST / HONG KONG	83,000	$2,080.10	0.02506
HSBC INVESTMENT BANK	109,182	$4,533.94	0.04153
INDOSUEZ / NEW YORK	74,000	$12,779.14	0.17269

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE
ING BARING SECURITIES / HONG KONG	1,000	$279.00	0.27900
ING BARING SECURITIES / NEW YORK	8,000	$187.05	0.02338
INSTINET CORP	11,400	$34,981.76	3.06858
INSTINET CORPORATION	300	$10.50	0.03500
INTERSEC RESEARCH	1,700	$162.00	0.09529
INTERSTATE SECURITIES CORP	2,000	$100.00	0.05000
INVESTMENT TECHNOLOGY GRP INC.	574,591	$29,657.22	0.05161
ISI GROUP	19,400	$1,765.00	0.09098
ISI GROUP INC	3,500	$355.00	0.10143
J P MORGAN SEC EQUTIY GROUP	224,000	$27,658.50	0.12348
JACKSON PARTNERS & ASSOCIATES	6,300	$315.00	0.05000
JARDINE FLEMING SECS LTD / HONG KONG	8,000	$126.38	0.01580
JB WERE AND SON (HEAD OFFICE)	22,290	$307.41	0.01379
JEFFERIES & COMPANY INC	24,650	$8,702.00	0.35302
JOHN HANCOCK CLEARINGCORP	2,400	$120.00	0.05000
JOHNSON RICE	10,200	$600.00	0.05882
JONES & ASSOCIATES	1,800	$215.00	0.11944
JP MORGAN / LONDON	7,775	$1,125.62	0.14477
JP MORGAN SECURITIES / NEW YORK	43,500	$4,941.16	0.11359
KING SECURITIES	1,300	$65.00	0.05000
KLEINWORT BENSON / LONDON	76,850	$2,082.07	0.02709
LAZARD FRERES & CO	6,000	$1,371.00	0.22850
LEGG MASON	401,200	$1,108.00	0.00276
LEHMAN BROTHERS INC.	161,444	$14,911.00	0.09236
LEHMAN BROTHERS INTERNATIONAL EUROPE	16,078	$3,251.60	0.20224
LEHMAN BROTHERS SECURITIES / LONDON	213,670	$2,433.13	0.01139
LEWCO SEC AGT/WERTHEIM	19,633	$4,812.65	0.24513
LYNCH JONES	8,100	$1,169.00	0.14432
MACQUARIE EQUITIES LTD / NEW YORK	92,800	$915.34	0.00986
MAGNA SECURITIES CORPORATION	55,300	$18,531.00	0.33510
MCDONALD & COMPANY SECURITIES	880,500	$1,292.00	0.00147
MERRILL LYNCH / NEW YORK	22,800	$1,346.43	0.05905
MERRILL LYNCH INT'L LTD / LONDON	332,014	$4,137.13	0.01246
MERRILL LYNCH PIERCE	2,076,512	$30,230.00	0.01456
MERRILL LYNCH PROF CLR CRP	7,000	$350.00	0.05000
MESIROW & COMPANY INC.	25,000	$1,250.00	0.05000
MIDWEST	17,800	$890.00	0.05000
MILLER TABAK	1,945	$97.25	0.05000
MORGAN GRENFELL SECS LTD / LONDON	83,911	$3,385.92	0.04035
MORGAN STANLEY & CO INC	144,250	$2,096.97	0.01454
MORGAN STANLEY & CO INC / LONDON	95,474	$4,607.61	0.04826
MORGAN STANLEY & CO INC / NEW YORK	63,506	$4,569.72	0.07196
MORGAN STANLEY & CO INT'L LTD	11,018	$146.19	0.01327
MORGAN STANLEY & CO. INC	12,017,739	$25,048.94	0.00208
NATIONAL FINANCIAL SERVICES	3,400	$170.00	0.05000

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE
NATIONSBANC MONT SEC LLC SF	19,725	$10,648.00	0.53982
NATWEST SECURITIES / NEW YORK	370,275	$9,242.39	0.02496
NEEDHAM & CO	3,100	$30.00	0.00968
O'NEIL WILLIAM AND CO INC	6,700	$402.00	0.06000
ORD MINNETT / SYDNEY	13,650	$216.35	0.01585
PACIFIC GROWTH EQUITIES	1,500	$180.00	0.12000
PAINE WEBBER JACKSON & CURTIS	5,090,113	$36,442.70	0.00716
PARIBAS CORP	100	$495.00	4.95000
PAULSEN DOWLING SEC	3,300	$165.00	0.05000
PCS SECURITIES INC	300	$545.00	1.81667
PERSHING	1,370,835	$9,059.00	0.00661
PERSHING / LONDON	107,400	$941.56	0.00877
PERT	73,907	$134,302.65	1.81718
PIPER JAFFRAY & HOPWOOD INC	1,053,775	$830.00	0.00079
PRUDENTIAL BACHE SECURITIES	401,754	$18,690.00	0.04652
RAGEN MACKENZIE INC.	3,400	$1,611.00	0.47382
RAYMOND JAMES & ASSOCIATES INC	621,900	$735.00	0.00118
ROBERT FLEMING AND CO LTD / LONDON	66,858	$742.00	0.01110
ROBERT VAN SECURITIES INC	21,600	$5,140.00	0.23796
ROBINSON HUMPHREY	9,200	$1,015.00	0.11033
ROULSTON RESEARCH CORP	1,600	$96.00	0.06000
RYAN BECK & CO	1,300	$65.00	0.05000
SALOMON BROS INC / LONDON	5,500	$102.40	0.01862
SALOMON BROS INC / NEW YORK	9,948	$1,737.16	0.17462
SALOMON BROS INT'L LTD / LONDON	89,323	$2,881.68	0.03226
SALOMON SMITH BARNEY	550,000	$6,107.72	0.01110
SBC WARBURG ASIA LTD / HONG KONG	31,000	$709.12	0.02287
SBC WARBURG DILLON READ	131,848	$7,644.51	0.05798
SBC WARBURG DILLON READ ASIA LTD	102,929	$3,167.29	0.03077
SBC WARBURG DILLON READ HD LTD	68,300	$1,154.62	0.01691
SBC WARBURG DILLON READ INC	2,692,475	$3,212.00	0.00119
SBC WARBURG SECURITIES	15,373	$313.80	0.02041
SBC WARBURG SECURITIES / SINGAPORE	36,600	$474.59	0.01297
SBK BROOKS	14,200	$710.00	0.05000
SCHRODERS SECURITIES / LONDON	110,815	$1,823.51	0.01646
SCHWAB (CHARLES) & CO. INC.	36,000	$1,615.00	0.04486
SCOTT & STRINGFELLOW INC	13,800	$290.00	0.02101
SEI FINANCIAL SERVICES CO	1,200	$60.00	0.05000
SEIDLER	17,800	$30.00	0.00169
SG SECURITIES (HK) LTD	45,000	$4,455.86	0.09902
SHIELDS & COMPANY	2,700	$135.00	0.05000
SK INTERNATIONAL SECURITIES	31,500	$1,575.00	0.05000
SMITH BARNEY INC.	47,147,080	$47,978.50	0.00102
SOUNDVIEW FINANCIAL GROUP	57,300	$948.00	0.01654
SOUTHCOAST CAPITAL INC.	8,300	$132.00	0.01590

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE
SPEAR LEEDS & KELLOGG	1,250,500	$1,635.00	0.00131
STIFEL NICOLAUS & CO. INC.	17,500	$60.00	0.00343
THE CITATION GROUP	1,100	$55.00	0.05000
THE MALANCHI GROUP INC.	5,000	$528.00	0.10560
THOMSON INSTL SERVICE	500	$2,233.00	4.46600
TRAVELERS-SMITH BARNEY	114,000	$1,681.53	0.01475
U.S.CLEARING CORP	4,900	$2,729.00	0.55694
UBS SECURITIES / TOKYO	1,400	$306.73	0.21909
UNION BANK OF SWITZERLAND / LONDON	347,638	$4,268.92	0.01228
US CLEARING INSTITUTIONAL TRAD	39,050	$53,354.50	1.36631
VAN KASPER & COMPANY	5,900	$348.00	0.05898
WEEDEN & CO	5,250	$2,904.00	0.55314
WEISS PECK & GREER L L C	3,486,700	$14,514.39	0.00416
WESTMINSTER RESEARCH	8,600	$430.00	0.05000
WILLIAMS CAPITAL GRO	38,700	$6,320.00	0.16331
WILSHIRE ASSOCIATES	4,500	$270.00	0.06000
WITTER (DEAN) REYNOLDS INC	1,300	$600.00	0.46154
TOTAL	**218,103,516**	**$1,098,757.27**	**0.00504**

INVESTMENT SUMMARY
As of June 30, 2000

TYPE OF INVESTMENT		MARKET VALUE	% OF PORTFOLIO
Preferred Stock (Equity)			
Domestic preferred	$	554,025	0.03%
Foreign preferred		580,613	0.03%
TOTAL PREFERRED STOCK	**$**	**1,134,638**	**0.06%**
Common Stock (Equity)			
Basic Industry	$	24,927,213	1.47%
Capital Goods		216,538,154	12.81%
Consumer Durable		7,143,781	0.42%
Consumer Non-Durable		118,494,374	7.01%
Energy		35,722,749	2.11%
Finance & Building		93,745,658	5.54%
Health Care		76,573,357	4.53%
Miscellaneous		1,469,038	0.09%
Transportation		10,488,009	0.62%
Utility		57,047,347	3.37%
International Equities		206,329,198	12.20%
TOTAL COMMON STOCK	**$**	**848,748,878**	**50.18%**
FIXED INCOME			
US Government	$	96,801,541	5.72%
Federal Agency		203,566,452	12.04%
Corporate Obligations		211,190,227	12.49%
Convertible Obligations		4,347,092	0.26%
Foreign Government		87,730,654	5.19%
Foreign Corporate		31,892,652	1.89%
TOTAL FIXED INCOME	**$**	**635,528,618**	**37.60%**
OTHER INVESTMENTS			
Short Term	$	90,545,843	5.35%
Real Estate		150,191,981	8.88%
TOTAL OTHER INVESTMENTS	**$**	**240,737,824**	**14.24%**
Pendings		**-35,185,669**	**-2.08%**
TOTAL	**$**	**1,690,964,289**	**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.

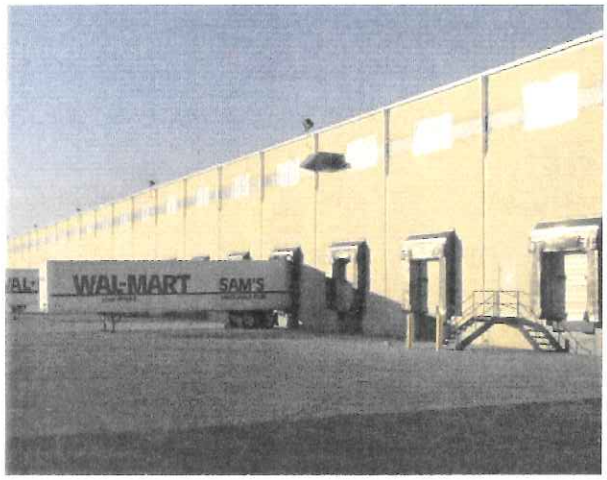
Saddleback Financial Center
72,711 s.f. mid-rise office building located in Laguna Hills, CA. Acquired jointly with the Federated City Employees' Retirement System in January 1988.

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. Invsted 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 1800
Box 7440 / 94120
San Francisco, CA 94111-4015

Phone 415 743 8700
Fax 415 743 8850

California Insurance License 0B10400

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

8/1/2000
Date

Andy Yeung, ASA, EA, MAAA

8/1/2000
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

Time Period	At Beginning of Period	Added During Period	Removed During Period	At End of Period	Annual Retiree Payroll as of the End of Period	% Increase in Annual Retiree Payroll	Average Annual Allowance
6/30/1993-6/30/1995	700	157	33	824	$ 25,583,000	31.94%	$ 31,047
6/30/1995-6/30/1997	824	145	29	940	$ 31,990,000	25.04%	$ 34,032
6/30/1997-6/30/1999	940	163	36	1,067	$ 41,072,470	28.39%	$ 38,493

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE
(Amounts in Thousands)

June 30, 1997 Unfunded 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 Actuarial Accrued Liability (Before Benefit Improvement Effective February 4, 2000)	$ (191,103)
Increase due to Benefit Improvement	$ 27,350
June 30, 1999 Unfunded 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.

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. Members must have retired from active service to be eligible.

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 9.48%[1] of pay.

City's Retirement Contributions

The City presently contributes at a rate of 13.46%[2] 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.

[1] 9.79% after reflecting February 4, 2000 benefit improvement
[2] 15.60% after reflecting February 4, 2000 benefit improvement

V.
STATISTICAL SECTION

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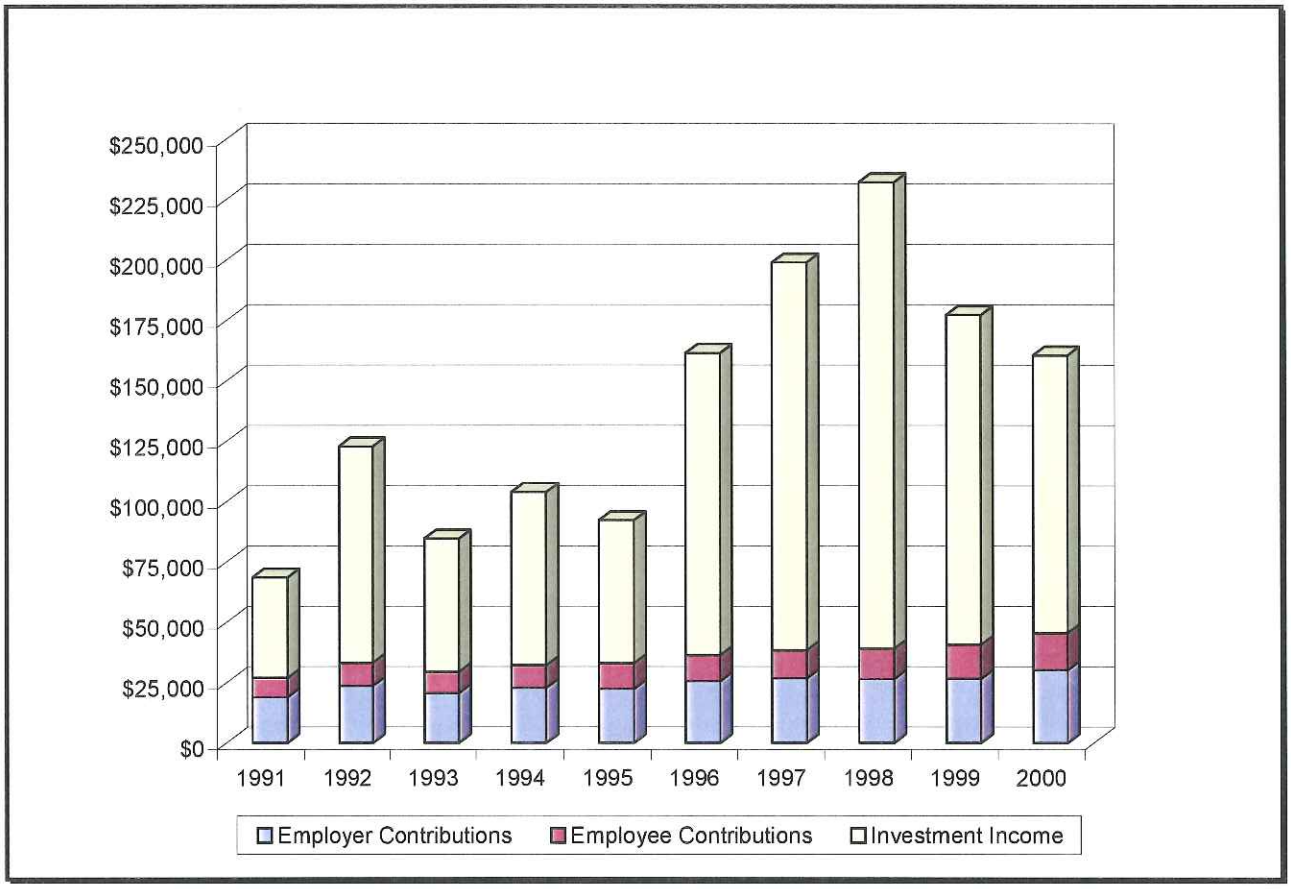
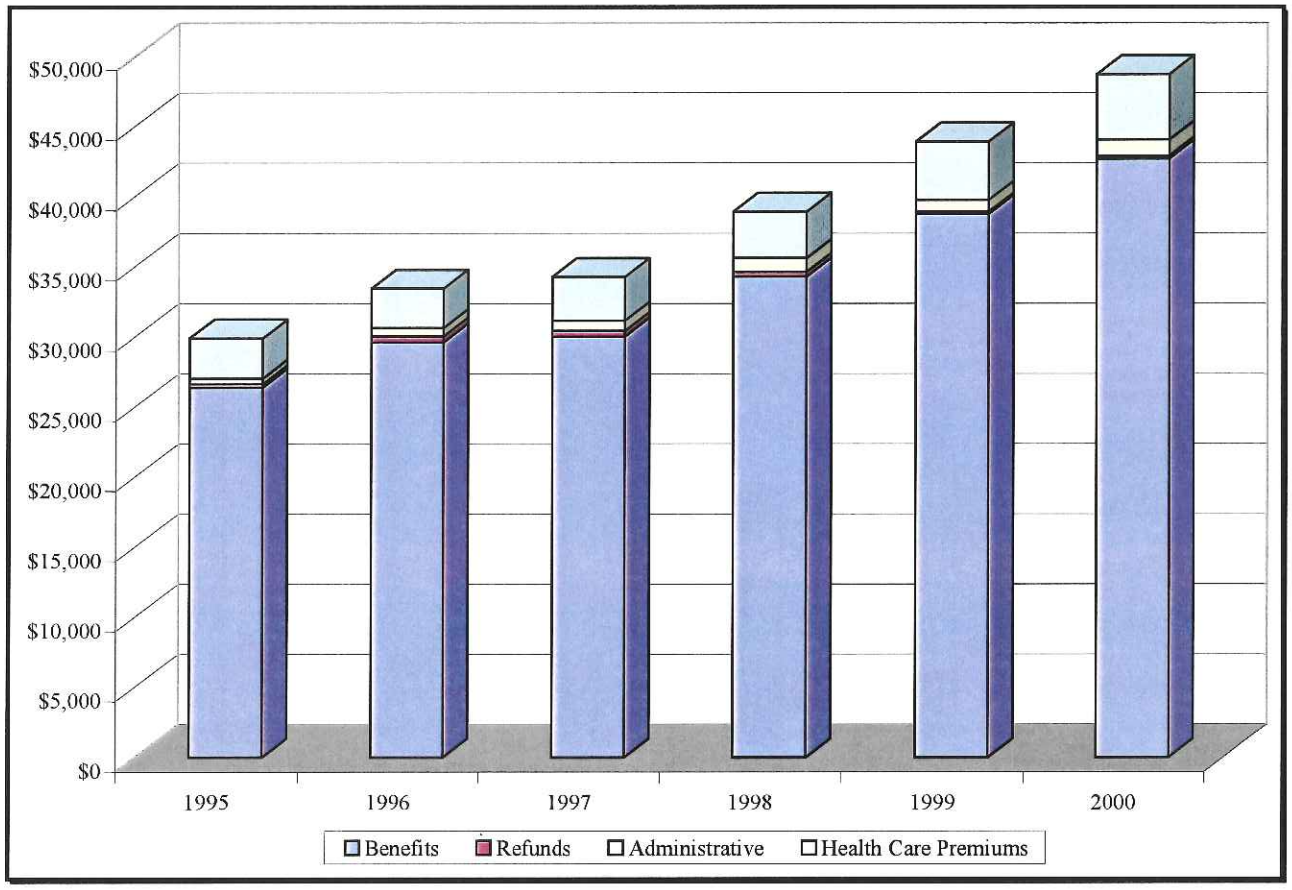
REVENUES BY SOURCE
For Fiscal Years 1991 - 2000
(In Thousands)



Year Ending	Employer Contributions	% of Annual Payroll	Employee Contributions	% of Annual Payroll	Investment Income *	Total
1991	$18,914	21.82%	$8,054	9.26%	$41,630	$68,598
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	$25,604	22.24%	$10,689	9.36%	$59,354	$95,647
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	15.70%	$15,374	9.79%	$115,059	$160,620

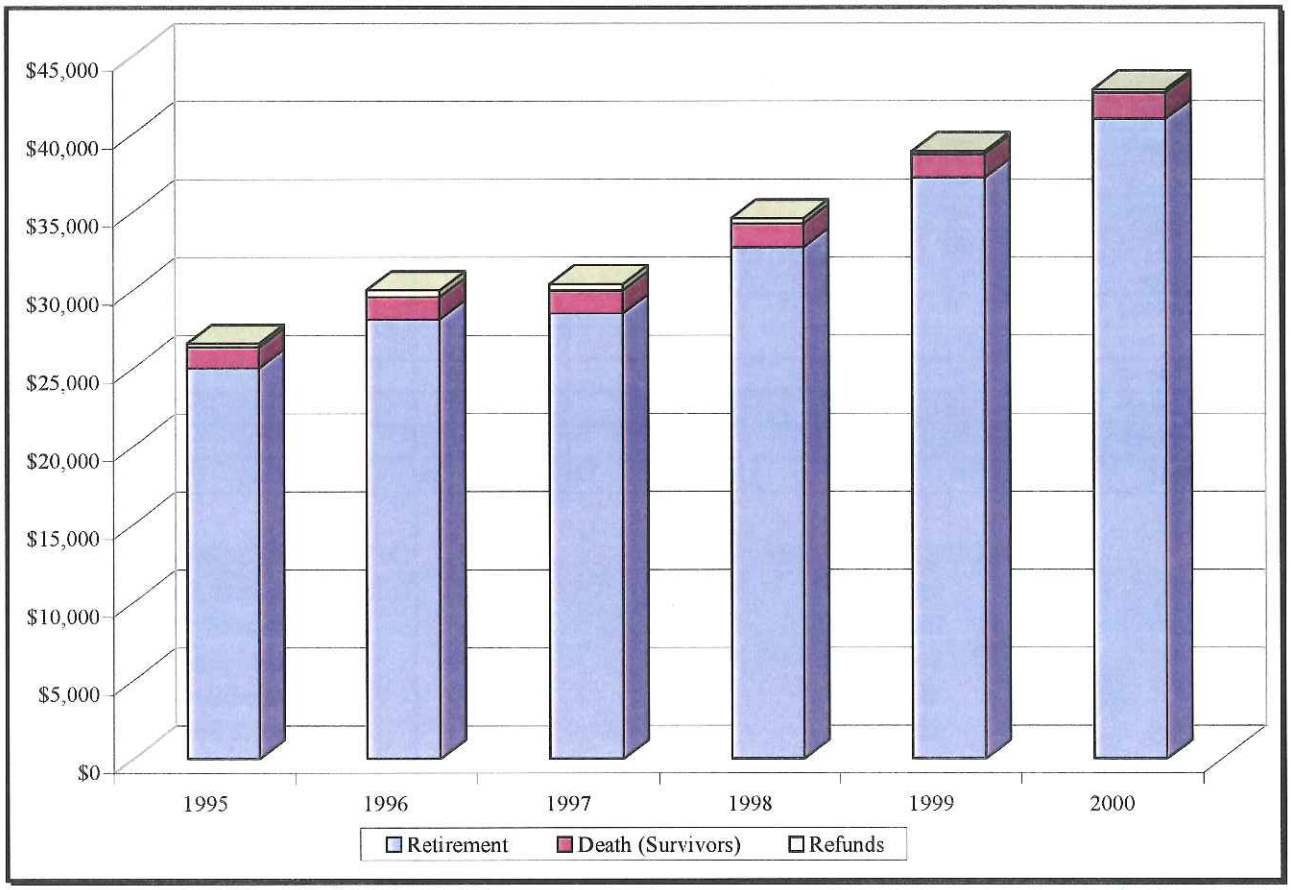
* Net of Investment Expenses and beginning 1997, audit report includes unrealized gains in investment income

EXPENSES BY TYPE
For Fiscal Years 1995 - 2000
(In Thousands)



	1995	1996	1997	1998	1999	2000
Benefits	$26,374	$29,594	$30,015	$34,274	$38,738	$42,663
Refunds	$252	$436	$402	$343	$167	$194
Administrative	$407	$601	$732	$990	$841	$1,167
Health Care Premiums	$2,861	$2,808	$3,115	$3,306	$4,156	$4,649
TOTAL	**$29,894**	**$33,439**	**$34,264**	**$38,913**	**$43,902**	**$48,673**

BENEFIT EXPENSES BY TYPE
For Fiscal Years 1995 - 2000
(In Thousands)



	1995	1996	1997	1998	1999	2000
Retirement	$25,036	$28,157	$28,531	$32,749	$37,207	$40,974
Death (Survivors)	$1,338	$1,437	$1,484	$1,525	$1,531	$1,689
Refunds	$252	$436	$402	$343	$167	$194
TOTAL	**$26,626**	**$30,030**	**$30,417**	**$34,617**	**$38,905**	**$42,857**

RETIRED MEMBERS BY TYPE OF BENEFIT
As of June 30, 2000

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	25			7	1		12	5	17	1	7		25
$1001 - 1500	80	4		44	9	6	12	5	33	2	45		80
$1501 - 2000	110	6		37	53	1	7	6	71	5	34		110
$2001 - 2500	100	3		24	66	1	2	4	72	6	21	1	100
$2501 - 3000	136	8	1	9	112	6			94	31	10	1	136
$3001 - 3500	113	16		4	88	3	1	1	67	34	4	8	113
$3501 - 4000	124	46		3	75				51	55	6	12	124
$4001 - 4500	128	49		4	75				57	57	5	9	128
$4501 - 5000	150	74		1	74		1		41	95	4	10	150
Over $5000	147	63			82	1		1	60	73	1	13	147
TOTAL	**1119**	**269**	**1**	**133**	**635**	**18**	**40**	**23**	**567**	**361**	**137**	**54**	**1119**

RETIREMENT CODES

1 Service
2 Early
3 Survivor
4 SCD
5 NSCD
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

RETIREMENTS DURING FISCAL YEAR 1999-00

SERVICE RETIREMENTS

POLICE DEPARTMENT

ADAMS,	EUGENE
BROCKMAN,	WILLIAM
DUEY,	DENNIS
EVANS,	RONALD
FAZO,	DAVID
GREEN,	CHRISTOPHER
HOLSER,	GEORGE
IRELAND,	RAYMOND
OISETH,	EDMUND
ORDONEZ,	PHILLIP*
PASCOE,	BRENT
WEBSTER,	RONALD
WOOD,	JAMES
YUHAS,	RICHARD

FIRE DEPARTMENT

BERNHARD,	DOUGLAS
CARTER,	DOUGLAS
GIAFAGLIONE,	JAMES
GROSSI,	DOMENICK
MAYES,	WILLIAM
WHEATON,	MICHAEL
WINTER,	WILLIAM
ZWART,	HARRY

* Early Retirement (Age 50-54 with minimum 20 years of service - reduced benefit)

DEFERRED VESTED RETIREMENTS

POLICE DEPARTMENT

NONE

FIRE DEPARTMENT

NONE

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

POLICE DEPARTMENT

NONE

FIRE DEPARTMENT

NONE

RETIREMENTS DURING FISCAL YEAR 1999-00 (Continued)

SERVICE-CONNECTED DISABILITY RETIREMENTS

POLICE DEPARTMENT

BELL,	MICHAEL
CONFER,	RICHARD
DOMINGUEZ,	EYNALDO
EDGMON,	MICHAEL
FEARHEILEY,	VINCE
HALE,	DONALD
HARRINGTON,	HAROLD
JOHNSON,	MARDY
MC GUIRE,	PATRICK

6.5% of the disability retirements did not meet requirements for a service retirement.

FIRE DEPARTMENT

BARTOSIEWICZ,	WILLIAM
BURCHAM,	ROCKY
BYNOE,	DUDLEY
CARRAHER,	DONALD
CHAPP,	WAYNE
GALLAGHER,	TIMOTHY
GEORGE,	EDWARD
ISON,	KEITH
IVERSON,	EDWARD
KING,	RONALD
MANCUS,	WILLIAM
MEALIFFE,	TIMOTHY
MEDINA,	EDUARDO
MOFFETT,	MICHAEL
PARKS,	GARY
PENCE,	RICHARD
POTTER,	DOUGLAS
SCULLY,	THOMAS
SOUZA,	STEVEN
TORKELSON,	LARRY
TRUE,	JAMES
ZUBILLAGA,	JAMES

DEATHS DURING FISCAL YEAR 1999-00

DEATHS AFTER RETIREMENT

POLICE DEPARTMENT

BAULEKE,	TERRY
DOWLING,	RONALD
DUFFY,	ROBERT
HOBER,	JAMES
MOORE,	BRUCE
STURDIVANT,	MARCUS

FIRE DEPARTMENT

AHERN,	DONALD
CARLYON,	JOHN
HOLMBERG,	H S
MARAL,	MANUEL
MARKS,	LEONARD
SPAULDING,	BENJAMIN
TONEY,	JERRY

DEATHS BEFORE RETIREMENT

POLICE DEPARTMENT

CASEY,	DESMOND
FUJINO,	GORDON

FIRE DEPARTMENT

NONE