



CITY *of* EL PASO
EMPLOYEES RETIREMENT TRUST

**ANNUAL FINANCIAL REPORT
2018**

I. Background

The following information is presented with the intent of providing the participants and beneficiaries of the El Paso City Employees Retirement Trust, (the “Trust”), with information regarding the financial status of the retirement trust. While this information is intended to provide information to the participants and beneficiaries of the Trust, selected additional information in more detail is available for inspection at the El Paso City Employees Retirement Trust office located at 1039 Chelsea St. in El Paso, Texas. Should you desire to review the selected detailed information from which the information contained herein is extracted please call the Trust administrative office for an appointment.

Included in this annual report is information related to the financial condition of the Trust. Information regarding the results of Trust’s biennial actuarial review and the yearly external audit of the Trust are provided. The Trust has taken the liberty of providing some supplemental information regarding the interpretation of the reports referred to above.

II. Administration

The Trust is administered in accordance with the trust document or pension ordinance enacted by the City Council of the City of El Paso. This trust document is found in Chapter 2.64 of the El Paso Municipal Code. The trust document provides, in part, that the Trust may make rules and regulations necessary to provide for effective administration of the Trust. The Trust is governed not only by the pension ordinance but also by any rules and regulations approved by the Retirement Trust’s Board of Trustees.

The Board of Trustees (the “Board”), is a quasi-legislative and quasi-judicial body which is promulgated by the pension ordinance. There are currently 9 individuals who serve as your Retirement Trust Board of Trustees. The composition of trustees who serve on the Board are either elected by the members or appointed by the Mayor or City Council. Four employee representatives are elected and serve four (4) year terms. Five members are appointed either by City Council or the Mayor. These appointed Board members serve for a term of two (2) years. Board members may be reelected or reappointed as long as certain qualifications required by the pension ordinance are satisfied. However, appointed members of the Board have lifetime term limits of eight (8) years.

Board members are responsible for a number of decisions, which affect the management of the Trust. Board members pass rules and regulations and approve policies governing the administration of the Trust. Board members hire the Trust staff, provide a yearly budget, make investment decisions and set the policy and direction of the Trust through their efforts, and decide disability claims.

The current members of the City of El Paso Employees Retirement Trust Board of Trustees are:

Elected members:

Karl Rimkus
7969 San Paulo
El Paso, Texas 79907

Robert C. Studer – Vice Chairman
300 N. Campbell
El Paso, Texas 79901

Mario Hernandez
5115 El Paso Drive
El Paso, Texas 79905

Diana Nunez
7968 San Paulo
El Paso, Texas 79907

Appointed members:

Representative Isabel Salcido
300 N. Campbell
El Paso, Texas 79901

Representative Sam Morgan
300 N. Campbell
El Paso, Texas 79901

Matt Kerr
5061 Meadowlark
El Paso, Texas 7992

Tamara Gladkowski
500 N. Mesa
El Paso, Texas 79901

Nicholas J. Costanzo - Chairman
5132 Prince Edward
El Paso, TX 79924

Employees of the Trust:

❖ Robert Ash
Executive Director

-Vacant Position-
Deputy Executive Director

Karina Chavez
Administrative Assistant

David Garcia
Payroll / Accounts Payable Specialist

Alma R. Duenas
Benefits / Budget Specialist

Esmeralda Aguirre
Benefits Technician

Pauline Castillo
Benefits Technician

Emilia H. Avila
Retiree Coordinator/Data Entry Clerk

* The Retirement Trust Executive Director serves as Secretary to the Board but does not vote and is not counted for purposes of establishing a quorum.

The City's Comptroller serves as Treasurer of the Trust but does not vote and is not counted for purposes of establishing a quorum.

The address for Retirement Trust Administration staff is:
1039 Chelsea St.
El Paso Texas 79903

III. Financial Statements

The financial statements and auditors' opinion identified below are compiled as part of the yearly audit performed by the Trust's external auditors BKD. The financial statements reflect the most recent audit period which represents the fiscal year from September 1, 2017 through August 31, 2018.

Auditors Opinion:

Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees, Audit Committee and Management
El Paso City Employees' Pension Fund
El Paso, Texas

As part of our audit of the financial statements of El Paso City Employees' Pension Fund (Fund) as of and for the year ended August 31, 2018, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Fund's significant accounting policies are described in *Note 1* of the audited financial statements. We noted no unusual accounting policies or accounting methods used by the Fund for unusual transactions.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Fair value of investments
- Net pension liability

Financial Statement Disclosures

The following area involves particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Net pension liability
- Determination of fair value of investments

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated.

Areas in which audit adjustments were proposed include:

- None noted

Areas in which adjustments were made as part of the financial statements preparation include:

- Valuation of investments
- Reclassification of investment manager fees
- Accrued expenses
- Fixed assets

Auditor's Judgments About the Quality of the Fund's Accounting Principles

No matters are reportable.

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies

This communication is intended solely for the information and use of the Audit Committee, Board of Trustees and management, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 14, 2019

El Paso City Employees' Pension Fund
(A Component Unit of the City of El Paso, Texas)
Statements of Fiduciary Net Position
August 31, 2018 and 2017

Assets

	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$7,433,888	\$10,597,586
Receivables		
Commission credits receivable	105,042	128,931
Due from brokers for securities sold	3,558,783	967,188
Employer contributions	1,047,510	947,003
Plan member contributions	667,228	596,022
Accrued interest and dividends	664,340	620,705
	<u>1,584</u>	<u>-</u>
Total receivables	<u>6,044,487</u>	<u>3,259,849</u>
Prepaid Insurance	<u>17,360</u>	<u>21,857</u>
Investments, At Fair Value		
U.S. government securities	32,086,839	27,104,666
Corporate bonds and notes	38,991,174	42,183,834
Absolute return investments	126,830,615	109,573,856
Corporate stocks	101,459,644	83,883,305
Bank collective investment funds	180,019,198	176,342,988
Commingled funds		
Fixed income	73,142,079	74,742,206
Corporate stocks	81,629,104	89,269,106
Private real estate	72,817,424	67,975,022
Private equity investments	62,394,830	57,103,830
Master limited partnerships	<u>39,817,825</u>	<u>37,030,451</u>
Total investments at fair value	<u>809,188,732</u>	<u>765,209,264</u>
Capital Assets, Land	<u>3,111,020</u>	<u>891,306</u>
Total assets	<u>825,795,487</u>	<u>779,979,862</u>

Liabilities

Due to brokers for securities purchased	4,777,992	1,715,974
Accrued expenses	946,165	726,570
Accrued drawdown	-	855,764
Unearned revenue – commission credits	<u>105,042</u>	<u>128,931</u>
Total liabilities	<u>5,829,199</u>	<u>3,427,239</u>

Net Position Restricted for Pensions	<u>\$ 819,966,288</u>	<u>\$ 776,552,623</u>
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El Paso City Employees' Pension Fund
(A Component Unit of the City of El Paso, Texas)
Statements of Changes in Fiduciary Net Position
Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Additions		
Contributions		
Employer	\$ 25,651,488	\$ 25,327,071
Plan members	15,540,713	15,154,341
	<u>41,192,201</u>	<u>40,481,412</u>
Investment Income		
Net appreciation (depreciation) in fair value of investments	64,832,061	74,716,005
Interest	3,915,267	3,808,906
Dividends	3,186,719	2,582,152
Securities lending income	6,801	68,169
Investment advisor fees	(6,578,777)	(5,783,774)
Securities lending fees	-	(22,691)
Miscellaneous income/ (expense)	10,418	2,206
	<u>65,372,489</u>	<u>75,370,973</u>
Net investment income (loss)		
	<u>106,564,690</u>	<u>115,852,385</u>
Deductions		
Benefits paid to plan members	58,094,939	57,972,792
Refunds	2,889,443	3,104,773
Prepaid COLA payments	130,000	
Administrative expenses	2,036,643	1,325,640
	<u>63,151,025</u>	<u>62,403,205</u>
Total deductions		
	<u>43,413,665</u>	<u>53,449,180</u>
Net Increase (Decrease) in Net Position		
	<u>776,552,623</u>	<u>723,103,443</u>
Net Position Restricted for Pensions, Beginning of Year		
	<u>\$ 819,966,288</u>	<u>\$ 776,552,623</u>
Net Position Restricted for Pensions, End of Year		

IV. Actuarial Statements

The Trust has employed the actuary firm of Buck Global, LLC (Buck) to review the Trust's funding and liability. The actuary uses mathematical and statistical formulas in order to substantiate their opinion as to the funding status of the City of El Paso Employees Retirement Trust. The last biennial actuarial valuation was performed for the two fiscal years ending August 31, 2018. The results of this valuation are included as part of this annual report.



February 6, 2019

Mr. Robert B. Ash
Pension Administrator
City of El Paso Employees' Retirement Trust
1039 Chelsea St.
El Paso, TX 79903

Dear Robert,

This report summarizes the results of the September 1, 2018 actuarial valuation of the City of El Paso Employees Retirement Trust (Plan).

The primary purposes of the valuation are to (i) determine the adequacy of the current contribution rate of the City, (ii) describe the current financial condition of the Plan, and (iii) analyze changes in the Plan's condition since the last valuation.

Valuations are prepared biennially, as of September 1 of even years. September 1 is the first day of the Plan's plan year. Interim valuations are prepared as of September 1 of odd years based on updated assets and a roll-forward of liabilities from the previous valuation.

Use of this report for any other purpose or by anyone other than the City and the Plan's auditors may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of the report for that purpose. Because of the risk of misinterpretation of actuarial results, Buck recommends requesting it to perform an advance review of any statement, document, or filing based on information contained in this report. Buck will accept no liability for any such statement, document or filing made without prior review by Buck.

The actuarial valuation reflects the benefit and contribution provisions set forth in the Plan's statutes. A summary of the benefit provisions used in the valuation is presented in Schedule B. There were no changes in benefit provisions since the previous valuation.

The actuarial assumptions and methods used in the valuation are presented in Schedule C. In my opinion, the actuarial assumptions are reasonable, taking into account the experience of the Plan and reasonable long-term expectations, and represent my best estimate of the anticipated long-term experience under the Plan. The assumptions and methods are the same as those used in the previous valuation.

Member data for active, retired, and inactive members was supplied as of July 1, 2018 by the City. The City is solely responsible for the accuracy and comprehensiveness of the data. We did not verify the data submitted but did perform tests for consistency and reasonableness. Asset information was supplied by the City.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in

plan provisions or applicable law. An analysis of the potential range of such future differences is beyond the scope of this valuation.

Where presented, references to “funded ratio” and “unfunded accrued liability” typically are measured on an actuarial value of assets basis. It should be noted that the same measurements using market value of assets would result in different funded ratios and unfunded accrued liabilities. Moreover, the funded ratio presented is appropriate for evaluating the need and level of future contributions but makes no assessment regarding the funded status of the Plan if the Plan were to settle (i.e., purchase annuities) for all or a portion of its liabilities.

This report was prepared under my supervision and in accordance with all applicable Actuarial Standards of Practice. I am a Fellow of the Society of Actuaries, an Enrolled Actuary, a Member of the American Academy of Actuaries, and a Fellow of the Conference of Consulting Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

I am available to discuss this report with you at your convenience. I can be reached at (602) 803- 6174.

Buck Global, LLC (Buck)

A handwritten signature in black ink, appearing to read 'DK', is positioned above the printed name.

David J. Kershner, FSA, EA, MAAA, FCA
Principal

Section 3 – Actuarial Funding Requirements

Actuarial Liabilities, Costs and Funding Period

	September 1, 2018	September 1, 2016
1. Covered Payroll	\$ 167,225,529	\$ 156,336,028
2. Actuarial present value of future pay	\$ 1,318,186,404	\$ 1,204,554,432
3. Current contribution rates		
a. City	14.05%	14.05%
b. Member	<u>8.95%</u>	<u>8.95%</u>
c. Total	23.00%	23.00%
4. Normal cost rate		
a. Total (before adjustment for overtime)	12.42%	12.68%
b. Total (after adjustment for overtime)	11.94%	12.19%
c. Member contribution rate	8.95%	8.95%
d. Employer normal cost rate (4b – 4c)	2.99%	3.24%
5. Actuarial present value of future benefits	\$ 1,188,097,918	\$ 1,098,509,600
6. Actuarial present value of future normal costs (4a x 2)	\$ 163,718,751	\$ 152,737,502
7. Actuarial accrued liability (5 – 6)	\$ 1,024,379,167	\$ 945,772,098
8. Actuarial value of assets	\$ 822,926,030	\$ 749,026,818
9. Unfunded actuarial accrued liability (UAAL) (7 – 8)	\$ 201,453,137	\$ 196,745,280
10. 30-year funding cost for City		
a. Employer normal cost rate (4d)	2.99%	3.24%
b. UAAL amortization rate	<u>6.87%</u>	<u>7.17%</u>
c. Total	9.86%	10.41%
11. Margin over/(under) 30-year cost (3a – 10c)	4.19%	3.64%
12. Funding period to amortize UAAL	14 years	17 years

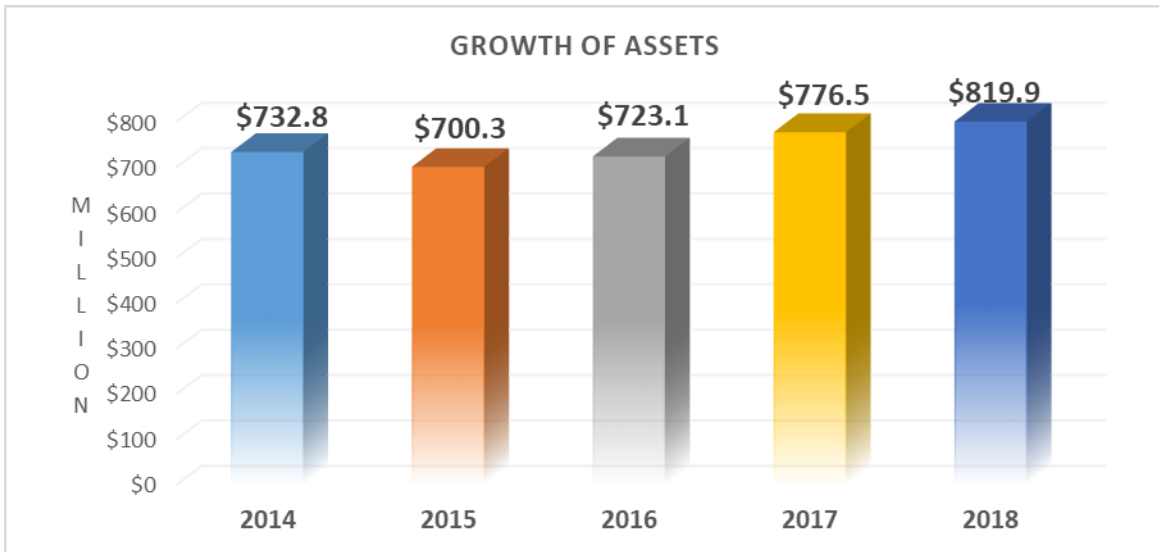
V. Rates of Investment Return and Expenses

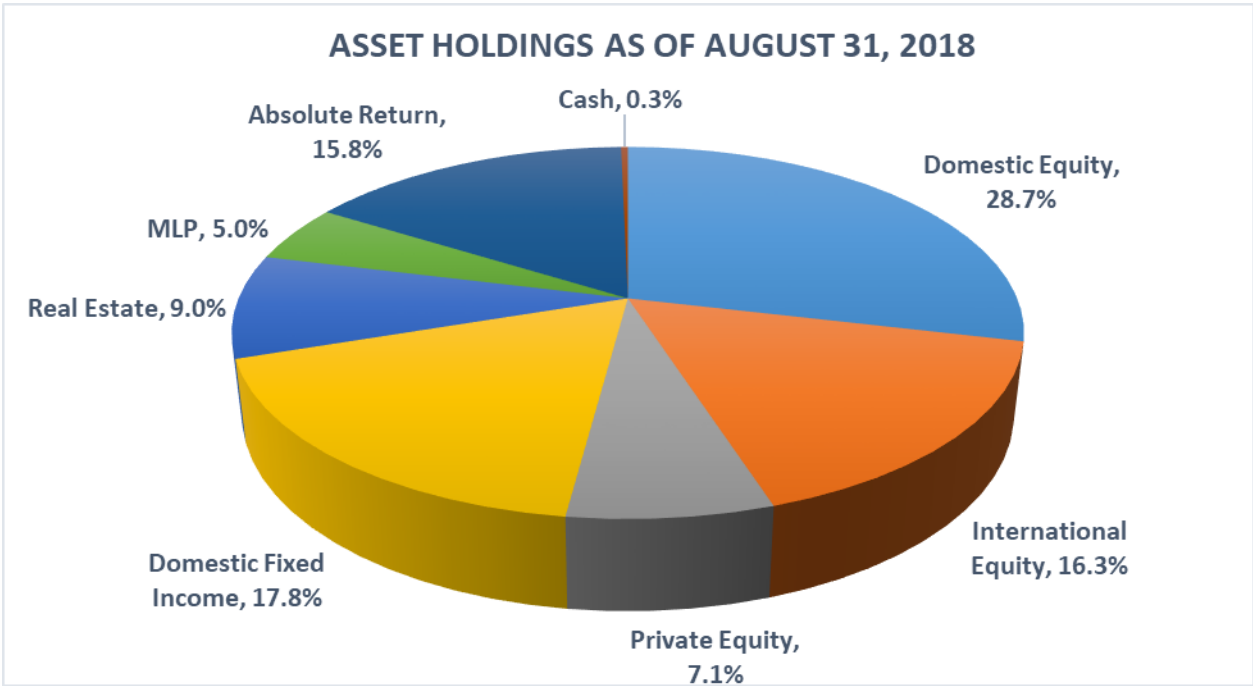
The rate of return on the investments made by the Trust during the last fiscal year was 8.74%. The net total investment expense on total assets was \$ 6,578,777 during the last fiscal year. Administrative expenses for the last fiscal year were \$2,036,643.

The total of administrative expenses and total investment expenses as a percentage of the fair value of assets of the system on the last day of the past five fiscal years is as follows:

2014	Investment Expense	0.46%	Administrative Expense	0.16%
2015	Investment Expense	0.51%	Administrative Expense	0.19%
2016	Investment Expense	0.70%	Administrative Expense	0.19%
2017	Investment Expense	0.74%	Administrative Expense	0.17%
2018	Investment Expense	0.80%	Administrative Expense	0.25%

The growth of retirement trust assets over the last five fiscal years, and the Trust's asset allocation are depicted by the following charts.





VI. Additional Publications

Copies of the Summary Plan Description are available in the Retirement Trust Administration Office located at 1039 Chelsea St, El Paso, Texas 79903. In addition, the complete auditors and actuary reports are maintained at the Trust's office. If you should desire to review any of these documents, please call to schedule an appointment, or log on to the Trust's website @ WWW.EPPENSION.ORG where these documents are posted.